

PREM 19/170

SECRET.

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PART 3.

Confidential filing.

Transfer of Public Sector Assets.

Consideration of transfer of Government Industrial
Establishments to the private sector.

Privatisation of British Railway Board Subsidiaries.

Disposal of BGC Oil Assets.

ECONOMIC POLICY.

Part 1: June 1979

Part 3: Feb 1980.

PART 3 ends:-

JPL to Incl 29.10.80

PART 4 begins:-

L (80) 54 31.10.80.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(DL)(80) 1	07/02/80
E(DL)(80) 3	07/05/80
E(DL)(80) 5	07/05/80
E(DL)(80) 2 nd Meeting, Minutes	12/05/80
E(DL)(80) 6	13/06/80
E(DL)(80) 3 rd Meeting, Item 1	24/06/80
E(DL)(80) 7 + Addendum	04/07/80
E(DL)(80) 9	04/07/80
E(DL)(80) 4 th Meeting, Minutes	08/07/80
E(DL)(80) 11	25/07/80
E(80) 81	30/07/80
E(DL)(80) 12	01/08/80
E(DL)(80) 5 th Meeting, Minutes	05/08/80
E(80) 30 th Meeting, Item 3	06/08/80
E(80) 97	10/09/80
E(80) 33 rd Meeting, Minute 2	15/09/80
E(DL)(80) 15	10/10/80
E(DL)(80) 6 th Meeting, Minutes	14/10/80
E(DL)(80) 18	20/10/80
E(DL)(80) 16	21/10/80
E(DL)(80) 17	21/10/80
E(DL)(80) 7 th Meeting, Minutes	23/10/80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed

AWayland

Date *2 March 2010*

PREM Records Team

CONFIDENTIAL *Econ PD H S*



File

cc: E Clee

Mo

Fco

Hmt

(D/IND)

10 DOWNING STREET

From the Private Secretary

29 October 1980

Ld Pres.

DIEMP

+CO

MAFF

DI TRADE

DIEN.

CSO, Hmt

Dear Ian.

BGC: Disposal of oil assets

The Prime Minister has read your Secretary of State's minute of 27 October, and like him, she has questioned the proposal from Lazards that BGC should continue managing the oil assets which are to be disposed of. She has commented that Ministers certainly should not automatically accept Lazards' opinion on this matter, and she hopes that it will be properly considered when Mr. Howell brings detailed proposals back to E(DL).

I am sending a copy of this letter to John Wiggins (H.M. Treasury), to the Private Secretaries to the members of E Committee and to David Wright (Cabinet Office).

~ ~

I E Clee

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

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10 DOWNING STREET

From the Private Secretary

28 October 1980

The Prime Minister has seen your Secretary of State's minute of 21 October, about statutory provision for the appointment of an additional Forestry Commissioner.

We had a word about this. Your Secretary of State's minute records that there are five part-time Commissioners, and spells out the expertise covered by three of these. You explained that the other two are from (1) trade union interests and (2) countryside/environmental interests, following the recommendations of the Estimates Committee in 1964/65.

Against this background, the Prime Minister is content that your Secretary of State should seek an increase of one in the number of part-time Forestry Commissioners, to bring in additional commercial and business expertise.

I am sending copies of this letter to the Private Secretaries to the Minister of Agriculture, the Secretary of State for Wales, the Chancellor of the Duchy of Lancaster, the Minister of State for the Civil Service Department, and to David Wright at the Cabinet Office.

M. A. PATTISON

Copy in Appointments.

Godfrey Robson, Esq.,
Scottish Office.

CONFIDENTIAL



PRIME MINISTER

BGC: DISPOSAL OF OIL ASSETS

- 1 David Howell's minute of 8 October sought agreement to Lazards proceeding with their work on BGC's disposal of a majority holding in their oil assets. Lazards are reported to attach importance to the continuation of BGC management of the assets under contract to the holding company.
- 2 Lazards should be well placed to judge the importance of this part of the proposal and I am aware of the benefits of achieving a successful and agreed disposal. But, we should not lose sight of the fact that such an arrangement will amount to keeping BGC in the oil business and is unlikely to achieve any reduction in public sector manpower. I am sure, therefore, that Nigel Lawson is right, in his minute of 16 October, to say that any contract should be for a limited period. I do, however, think that the implications of this aspect of the proposals could be set out more fully. It may be that the importance which Lazards attach to the retention of BGC management is somewhat exaggerated since potential purchasers of the majority share in the holding company will wish to bring their own expertise to the operation.
- 3 I am sending a copy of this minute to Geoffrey Howe, Members

/of ...

*Why do Lazards
take that view. We
should not impute
it as an expression
of opinion.
not*

Ann Minto
This point can
be considered when -
as we have asked -
the House bring detailed
proposals back to
E(D2).

*R
27/10*



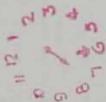
of E Committee and to Sir Robert Armstrong.

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27 K J
October 1980

Department of Industry
Ashdown House
123 Victoria Street

27 OCT 1980





10 DOWNING STREET

PRIME MINISTER

The Scottish Office tell me that the remaining two part-time Commissioners are drawn from (1) trade unions and (2) countryside/environmental interests. This follows the recommendations of the Estimates Committee in 1964/65.

As this arises from a Parliamentary Committee's recommendation, Mr. Younger feels that he should not disturb the present make-up of the body, but should add an extra post to meet the need for commercial and business expertise.

Agree now to add one additional part-timer?

27 October 1980

Yes
ms
MAD

CONFIDENTIAL

file



Econ PD MFT
cc: C.O.

(D/Engy)

DOT

D/EMP

MATT

Ld Pres.

27 October 1980

001

Hunt

FCO

HO

COO, (M)

10 DOWNING STREET

From the Private Secretary

Dear John,

BGC: Disposal of Oil Assets

The Prime Minister has now had an opportunity to consider your Secretary of State's minute of 8 October, the Financial Secretary's minute of 16 October and Mr. Howell's further minute of 22 October.

The Prime Minister is prepared to accept Mr. Howell's proposal for disposing of BGC's oil assets in 1981/82, even though this will mean missing the Treasury's disposals target for 1980/81. But she has asked me to emphasise that there must be no question of the £200m. which Mr. Howell hopes to raise from the disposal not being delivered in 1981/82.

As regards the various points of detail which are discussed in Mr. Howell's and Mr. Lawson's minutes, the Prime Minister suggests that Mr. Howell should report to E(DL) with firm proposals when the BGC scheme has been further developed.

I am copying this letter to the Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

[Handwritten signature]

Tim Laker.

J.D. West, Esq.,
Department of Energy.

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I have every sympathy
with Mr. Lawson's attitude in
view of the way DoT have consistently
dropped the target during 1980-81 - it will
be better next year. This year

PRIME MINISTER

Ref. A03346

MR. LANKESTER

CONFIDENTIAL

Are you content to
accept this advice, leaning
in favour of course (a)
below?

Disposal of British Gas Corporation Oil Assets

MS 24/10

Nevertheless - I will
find on last message and accept
(el) (tel) ... U-
shall therefore
expect
DoT to
delimit
soon to
the Embassy
next year
one more
interpretation
of (with
delay)
not

You asked for advice on the minutes dated 8th and 20th October from
Mr. Howell about disposal of British Gas Corporation (BGC) oil assets, and
the comment on them dated 16th October from Mr. Lawson.

2. There was a meeting of E(DL) yesterday which confirmed Mr. Lawson's
general picture on disposals in 1980-81 in relation to the target. There are
good prospects of achieving £500 million out of the target of £630 million. The
only real additional runners to meet the £130 million shortfall are British
Aerospace and Wytch Farm. British Aerospace might possibly provide
£50 million but there are great uncertainties about the effect of any cuts in the
Defence budget.

3. On the oil disposals, Mr. Howell, after a long rearguard action, has
eventually persuaded BGC to move towards devising a suitable scheme, and he
is confident that he will be able to deliver some £200 million to next year's
disposals. Failing that he could certainly deliver £100 million next year from
Wytch Farm. Although it is still theoretically possible to achieve a forced
Wytch Farm sale this year, it would undoubtedly be risky because BGC might
well drag their feet at all stages and there could be problems in getting a good
(and defensible) price in a sale conducted on such a tight timescale.

4. Thus the choice seems to be either

- (a) to accept the certainty of missing this year's overall disposals target,
but to have a good prospect of a high return from the BGC disposal
in 1981-82 when there will also be great PSBR problems; or
- (b) to adopt a high risk course which would possibly mean getting near
to this year's disposals target but which could instead result in a
smaller income in 1981-82 than (a) together with the additional
disadvantages of open conflict with BGC.



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5. If the Prime Minister decides to follow course (a), the Cabinet Office suggest that she need reach no conclusion on the points of detail about the scheme which Mr. Howell and Mr. Lawson discuss in their letters, but that instead she might ask Mr. Howell to report to E(DL) - or E if she wishes - with firm proposals when the BGC scheme is further developed.

(D.J. Wright)

24th October, 1980

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10 DOWNING STREET

From the Private Secretary

23 October 1980

The Prime Minister has seen the Secretary of State for Scotland's minute of 21 October about statutory provision for the appointment of an additional Forestry Commissioner.

She has noted that there are five part-time Commissioners chosen for their knowledge and experience in specific fields, but that your Secretary of State has only defined these fields in the case of three of the part-timers. She has asked why the commercial and business expertise cannot be offered through one of the two remaining part-time posts.

Perhaps you could let me have an answer to this enquiry by 'phone.

Godfrey Robson, Esq.,
Scottish Office.

Copy in Appointments.

Econ 101
—

THE PRIME MINISTER

BGC: DISPOSAL OF OIL ASSETS

I refer to Nigel Lawson's minute to you of 16 October commenting on the proposals set out in my minute of 8 October for the disposal of BGC's oil assets.

I fully appreciate the problems we are experiencing over meeting the disposals target for 1980/81 of £630m (at outturn prices). However, I do not share Nigel's view that there is a reasonable chance of securing receipts this year from the forced sale of BGC's share in the Wyth Farm oil field. There is, in my view, little prospect of our doing so. I believe in any case that the proposals outlined in my minute would achieve our objective better, and could raise significantly more, than the disposal of Wyth Farm alone. Given the acute problems we are facing for 1981/82, I do not think it is a prospect we should lightly forego.

I agree that we must make every effort to ensure that the proceeds from selling an equity stake in their oil interests should not be left with BGC. I would hope to be able to use Section 16 of the Gas Act 1972 to achieve this objective. As a last resort could use the levy as a means of creaming off excess revenue.

BGC have at last come a long way towards meeting our requirements. I believe that to attempt now, as Nigel suggests, to reserve our position on the size of BGC's minority stake could jeopardise progress on the whole transaction.

I also think it would be quite unreasonable to set them a deadline of early November to come up with an acceptable scheme. We only confirmed our line at E on 15 September and I reported BGC's response to you on October 8, after their special Board meeting on 3 October. Complex issues are involved and it will inevitably take some time for BGC and their merchant bank advisers to produce a detailed scheme. I shall, of course, keep up pressure on BGC and I would propose to make it clear to them that one of our requirements is that the proceeds from the sale of shares in an oil assets subsidiary should be received during 1981/82.

As regards the length of the management contract I suggest we do not take a firm view now on its duration although I take Nigel's point that we shall need to look closely at the length of the contract because of its PSBR considerations.

I am copying this to the members of 'E' Committee and Sir Robert Armstrong.

DGA
—

SECRETARY OF STATE FOR ENERGY

22 October 1980

22 OCT 1980





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

Content for Mr Younger to seek provision for an additional Forestry Commissioner?

MAD 22/X

CONFIDENTIAL

Prime Minister

STATUTORY PROVISION FOR THE APPOINTMENT OF AN ADDITIONAL FORESTRY COMMISSIONER

On 18 July I sought agreement to proposals arising from a review of forestry policy on which Nicholas Edwards, Peter Walker and I had been engaged. These proposals were designed to increase private sector participation in the forestry industry and in particular to introduce private capital into the Forestry Commission's estates, which would require an amendment to the Forestry Act 1967. E Committee gave authority for the necessary legislation in next session's programme and we intend to put a draft Forestry Bill to the Legislation Committee meeting on 5 November in the hope that it can be introduced at the beginning of the next session. This will, of course, depend on our ability to make a substantive policy statement at about that time, and we shall be in touch shortly with the Departments concerned on this point.

We have concluded that there would be benefit in increasing the number of part-time Forestry Commissioners by one in order to bring in commercial and business expertise from outside the forestry and wood-using industries. The Commission at present consists of a part-time Chairman, four full-time executive members, and five part-time Commissioners chosen for their knowledge and experience in specific fields. It has been the practice for two of the part-time Commissioners to cover the interests of private woodland owners and for the commerce/timber trade interests to be covered by a single part-time Commissioner. The addition of a further Commissioner would entail a simple amendment to Section 2(1) of the Forestry Act 1967. In anticipation of this amendment being approved, Norman St John-Stevas gave his agreement to our covering it in the draft Bill.

if there are 5 - what do the other 2 do?

To enable us to meet the timetable for clearance of the Bill by Legislation Committee, I hope that it will be acceptable for me to assume that we have E Committee's authority to proceed with this proposal if I do not receive any indication to the contrary by 27 October.

I am copying this minute to members of E Committee, Humphrey Atkins, Paul Channon, Nicholas Edwards, Norman St John-Stevas and to Sir Robert Armstrong.

Robert Younger

(Approved by the Secretary of State and signed in his absence.)

21 October 1980

Copy in Appointments.

CONFIDENTIAL



*R. Langston
Prime Minister*

①

*R. Whitmore ^{hall} rfg
Munt
Munt 20/4*

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 3000
DIRECT DIALLING 01-218 2111/3

MO 26/8/1

20th October 1980

Dear Keith,

ml

BRITISH AEROSPACE FLOTATION

We are not now meeting in E(DL) this morning as had been arranged, but had we done so I would have wanted to register my concern at the way in which positive decisions on flotation are being undermined by what I regard as wholly unrealistic assumptions about changes in the future level of defence spending.

I understand that Kleinworts have reacted strongly to what they have been told about Treasury objectives. They are clearly scared by the implications for the honourable flotation of the company. That Kleinworts should be so concerned does not surprise me: the Armed Services and the public, if they knew, would be just as scared by the implications for our defence effort. The fact is, however, that the Treasury proposals are just proposals and, from what I have already said on the subject, you will realise that I have no intention of agreeing to them.

Moreover, in recent years defence equipment expenditure has been rising in real terms and as a proportion of the defence budget; and, irrespective of the current round of PESC, it shows no sign of falling back in real terms in the future. Within this, BAe have secured a sizeable share of our business in the past and, though the fortunes of individual projects may vary and cancellations arise from time to time, BAe can confidently be expected to achieve a significant share of our business in the future, in competition with other companies. I would have thought the investment world and the investing public would understand this.

The Rt Hon Sir Keith Joseph Bt MP

CONFIDENTIAL



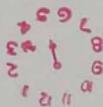
My view remains therefore that we should press on with the flotation as we agreed last week. There can hardly have been a month in the last decade when there has not been the threat of a PESC reduction in defence spending; and from that point of view there will never be a perfect time to embark on a flotation of a company with strong defence interest.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Chief Secretary and to Sir Robert Armstrong.

James Callaghan

Francis Pym

Francis Pym



085 120 2

1951 FEB 28

Prime Minister.
The background to the
British Aerospace issue, on
which Sir Keith Joseph
wants a word next week.



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

MAP 17/X

17 October 1980

T. Lankester, Esq.,
No.10, Downing Street
S.W.1

ML

Dear Tim,

PUBLIC EXPENDITURE AND THE BAE FLOTATION

As you know, Sir Keith Joseph saw the Chancellor this morning to discuss whether the Defence programme could be made exempt from the current public expenditure reductions, and be maintained at the Cmnd 7841 planned levels, in order at least partially to resolve current uncertainties about future MOD orders for British Aerospace which will otherwise preclude the privatisation of BAE next month. I understand that Sir Keith Joseph may intend to mention the matter to the Prime Minister tomorrow.

Sir Keith is now
now coming in
on Saturday. We
will get him in
next week.

ML
17x.

The Chancellor explained to Sir Keith Joseph this morning that the level of cuts in total public expenditure which, in his view and that of the Chief Secretary, are now required necessitates a substantial contribution from Defence. While regretting the delay to the privatisation of BAE, he saw no way in which an exemption for MOD could be contrived. At his request, I have subsequently sent to Sir Keith Joseph's office a copy of the attached note by officials which sets out some of the considerations underlying his view that some reductions on the Cmnd 7841 Defence figures are both essential and defensible within the Alliance.

.....

It may be helpful to set out for your information some figures relevant to the arrangement which Sir Keith Joseph had in mind. As foreshadowed in the Chancellor's minute of 10 October to the Prime Minister, Treasury Ministers are now seeking a substantial reduction, at present set at £500 million pa, in the Defence PES figures throughout

/the Survey



the Survey period. To forego any Defence reductions might be to concede rather more than this, since it would be difficult to secure Cabinet agreement to the total public expenditure cuts sought if as significant a programme as Defence had been wholly exempted. On the other side of the equation, the proceeds from a sale in November of 50 per cent of the shares in BAE Ltd. are, on the DOI's estimate, likely to amount to rather less than £70 million; and, provided that no new launch aid proposals from the Company were accepted, the PSBR would additionally benefit to the tune of some £100 million in 1981-82 and £75 million in the following two years as a result of the Company's meeting its forecast capital requirements from within the private sector. The imbalance in these figures is obvious: moreover, it is not certain that a sale of shares next month could take place even if MOD were granted exemption from any Survey reduction, since their current cash limit problems would make it difficult for them to give a commitment to no cancellation of existing BAE orders. Various other uncertainties overhanging the plan for November flotation were mentioned in E(DL) on 14 October.

The picture should of course be much clearer in the New Year.

Yours ever,

Richard Tatham

for

A.J. WIGGINS

NEED FOR CUTS IN PUBLIC EXPENDITURE: WHY DEFENCE CANNOT BE EXEMPT

It is vital to the Government's economic strategy that they should adhere to their commitment to contain public expenditure. It is fundamental to their approach that the size of the public sector should be rolled back. And added to this is a financial imperative to hold the PSBR in 1981-82 to a manageable level. It now appears necessary to find further savings of the order of £2 billion in order to achieve the objective, agreed in July, of holding to the Cmnd 7841 totals adjusted for the EC contribution.

2. The scope for savings on other programmes is severely limited: indeed there are some areas where increases are being sought. Defence represents a sixth of all Central Government expenditure. Total public expenditure programmes for 1981-82 were cut last year by £6.5 billion or 8.4%, while Defence was allowed an increase. Total spending was planned to decline by 0.6% in 1980-81 and 1.2% in 1981-82 while defence was to rise by more than 3% a year. The Cmnd 7841 figure for 1981-82 would now represent a 5.8% increase on the volume for 1980-81 which was implicit in the decision on the August cash limit increase. It has become impossible to reconcile this rate of growth with the progressive decline in output. Mr Fym accepted in the discussions on the cash limit that it was necessary to fall short of the NATO target in the short term in the interests of restoring the economic health which will sustain an enhanced defence effort in the future.

3. The UK's performance in relation to the NATO target will still compare favourably with many of our Allies. The target allows for derogation in the event of economic difficulties and many Allies have availed themselves of this with much less justification than the UK's current circumstances provide. (See the Annex attached, which reflects the position so far as we have been able to ascertain it in consultation with MOD.) The UK is still, along with the USA, well clear of the rest of the field in the share of national income it devotes to defence (about 5%) and that share will rise as the economy contracts over the next year or so. This compares with other European countries as follows:

	<u>1979</u>
Germany	3.3%
France	4.0%
Belgium	3.3%
Netherlands	3.3%
Italy	2.3%

4. It is up to NATO as a whole to respond to the threat to the Alliance. The UK is already carrying a disproportionately heavy share of the burden. Mr Fym recognises this, and is indeed understood to be preparing a paper for OD Committee on the possibility of more equitable burden sharing.

5. Politically, too, the success of the overall public expenditure strategy, which will require great sacrifices from other Ministers, demands a substantial contribution this time from the previously protected programmes. Mr Whitelaw has accepted a cut in the provision for law and order. The whole balance of the package would be distorted if there were no contribution from Defence, and it would not be feasible to re-allocate Defence's share to other programmes.

PERFORMANCE OF OTHER COUNTRIES IN RELATION TO THE NATO TARGET

The NATO target

In 1977 NATO Defence Ministers agreed (and the undertaking was endorsed by Heads of State and Government at the Washington Summit in May 1978) to aim at making available resources which would allow for annual increases in Defence spending in the region of 3% in real terms, recognising that, for some individual countries, economic circumstances would affect what could be achieved. The agreement covered the period 1979-1984. In May 1979 Defence Ministers agreed to extend this objective up to 1986.

2. But it is a target, not a binding commitment, and there are several ways in which countries can justify deviating from it. It speaks of "increases in the region of 3%", and allows for derogation in the event of economic difficulties. In practice compliance has been very patchy, as the following notes show.

Belgium

The Belgians achieved a 4.5% real increase in 1979, but in 1980 their plans provided for a 3.3% fall in real defence spending. In mid-year they announced a package of emergency cuts designed to save 5% of the defence budget in the second half of the calendar year. These measures attracted severe criticism from NATO.

Canada

Canada had negative growth of 2.3% in 1979. The previous Government's plans for 1980 were for an increase of 4.7%, but the restrictive fiscal stance being adopted by the Trudeau Administration makes it likely that the increase will fall well short of 3%; and the prospects for future years are uncertain.

Denmark

Denmark's growth in 1979 was - 0.2% and a further slight decline is planned in 1980. They are now considering a freeze on defence spending at constant prices: the clearest possible departure from the NATO target.

France

France is not a signatory to the target, but in fact French defence spending has been increasing at 3% a year and is likely to continue to do so.

Germany

The Germans achieved 1.7% growth in 1979. Their initial budget for 1980 provided for real growth of only 1½%, but supplementary provision is likely to bring them near to 3%: the latest estimate is 2.8%.

Italy

Italy achieved 6.0% growth in 1979, but real defence spending is expected to decline by 2.8% in 1980.

Netherlands

The Netherlands achieved 3½% growth in 1979. Their plans for 1980 showed a real increase of 2.2% and growth of 1½% in 1981. However the planned 2.2% is unlikely to be achieved because inadequate provision has been made for inflation. The Defence Minister has stated that the country's "difficult financial position" will prevent it meeting the target this year.

Norway

Norway achieved 1.9% growth in 1979 and plans for 2.6% growth in 1980.

Portugal, Turkey

It is accepted that these countries, in their particularly difficult circumstances, will be unable to achieve significant real growth of defence spending in the foreseeable future. Portugal is planning 2% growth in 1980 but negative growth after that.

United States

The USA achieved 3.1% growth in 1979. The budget for fiscal 1980 (ie. the year starting in October 1979) was intended to achieve 3.9% growth, although the President did not exempt the Defence Budget from cuts in supplementary provision in the course of the year, so the outturn may be rather lower. The President's budget for fiscal year 1981 provides for more than a 5% real increase in defence spending, and although this is as usual on a conservative assumption about inflation there seems little doubt that in the current mood the necessary supplementary provision will be granted to achieve most of that growth. The planned minimum growth in 1981 is 2.7%. The plans for future years show increases of more than 4% a year in real terms up to fiscal year 1985. The Presidential candidates are currently outbidding one another on further increases in defence spending - Mr Reagan has mentioned 10%.



17 OCT 1980



PRIME MINISTER

BCC: DISPOSAL OF OIL ASSETS

[attached]

Geoffrey Howe has asked me to comment on David Howell's proposals, set out in his minute of 8 October to you, for the disposal of BGC's oil assets.

It might be helpful if I first outlined the prospects, as we see them now, for meeting the published disposals target in 1980-81 of £500m (in 1979 Survey prices). This is equivalent to £630m in outturn prices, taking into account the need to make good the net increase in the PSBR resulting from the unwinding of about £50m of last year's forward oil sales. (All figures henceforth in this minute are in outturn prices.)

Receipts to date and firm commitments amount to some £178m (comprising £40m from the sale of new town assets, £112m from NEB shareholdings, £22m from motorway service areas and £4m from the PSA).

Fairly firm items, excluding the balance from the sale of new town assets, amount to £231m (comprising approximately £175m from the Seventh Round of North Sea oil licensing, £38m from the British Sugar Corporation, £15m from the sale of Market Towers, and a further £3m from motorway service areas). These items, taken with the receipts to date and firm commitments, amount to some £409m, a long way short of the target of £630m.

The target for the sale of new town assets in the current year is £260m, of which £40m has been included in paragraph 3 above. This leaves a further £220m to come. Our experience last year demonstrated that there is a risk of substantial slippage with this category of disposals. The defeat in the Lords on the Local Government Planning and Land (No 2) Bill may be relevant here.

The only other possibilities for substantial receipts this financial year are the sale of British Aerospace and of Cable & Wireless. But the prospects for securing proceeds from those sources in this financial year are most uncertain and have to be discounted for this purpose.

This analysis suggests that there is no prospect of reaching the published target of £630m without some contribution this financial year from the disposal of BGC oil assets unless against past form the full contribution from new town assets is received. I accept that the sale of shares in the oil field subsidiary will not raise money this financial year. But there is a reasonable chance, though no guarantee, of selling BGC's share in the Wytch Farm oilfield in time to secure receipts this year. This would enable the published disposals target to be reached. Without proceeds from the sale of Wytch Farm, I now see no prospect of reaching that target.

So the position is that if we are willing to miss the disposals target for 1980-81, we can agree that David Howell should, as he proposes, tell the Corporation that they should produce a scheme for disposing of their offshore and onshore oil interests on the lines described in paragraph 2 of his minute. But if he is to do that it is essential in my view that the Corporation should be told now that proceeds from the disposal of their oil assets must be received in 1981-82; and that if they cannot float off to the public shares in the oilfield company in time for proceeds to be received in 1981-82, we will have to issue a directive for them to dispose of their Wytch Farm holding so that at least the proceeds from the sale of that can be received in 1981-82. I suggest this because of the enormously difficult public expenditure position in 1981-82.

Turning to David Howell's particular proposals I agree, subject to the points above, that the Board must endorse, at an early date, a practical scheme satisfactory to us. The date in question must, I think, be no later than the end of the first week in November. This in fact would be later than E envisaged since the Committee

asked the Secretary of State "to conclude the discussions in time to ensure that, if a direction was required for the sale of Wytch Farm, it could be laid immediately after the summer Recess" (E(80)30th Meeting). If the Corporation do not come up with anything satisfactory by the first week in November, I think that we must issue a directive for them to dispose of their Wytch Farm holding as agreed by E on 6 August (E(80)30th Meeting).

I have the following three particular points on the proposals which Lazards put to the BGC Board:

- i. Arrangements would need to be made to remit the proceeds of the sale to the Exchequer and not to leave them with BGC. The Corporation should not be allowed to use the "Reverse NLF" device whereby they lend money to the Exchequer. If satisfactory arrangements cannot be made under existing legislation, I suggest that suitable provision should be taken in the forthcoming Petroleum and Continental Shelf Bill.
- ii. Lazards have suggested that only 60 per cent of the shares in the Company should be sold to the public. Certainly no lesser amount should be sold, but I think we ought to reserve judgement on whether more should be sold. On the figures given in paragraph 3 of David Howell's minute each additional 10 per cent of shares sold would raise some £30m, which would provide a useful contribution to reducing the PSBR in a very difficult year.
- iii. I note that Lazards believe that an important factor in achieving an acceptable market price for the shares is the continuation of the proven management of British Gas under a contract with the Company. I accept this point, but this management contract would need to be freely negotiated on an arms length basis between the Corporation and the company to be privatised. Nor could the contract be for an indefinite period if the new company is to be completely independent of

BGC and outside its control and therefore legitimately in the private sector. An initial management contract for one or two years should be sufficient to get the privatised company underway. After that the Board of the independent company should be completely free to decide whether to continue with the management contract.

These last two considerations are important if we are to be able to claim convincingly - as I think we must in view of next year's PSBR prospects - that the proceeds of the sale can legitimately count as a PSBR reduction.

Subject to these points and your acceptance of the consequences for the disposals target for 1980-81, I am content for the Secretary of State to proceed as he suggests in his minute.

I am sending a copy of this minute to Geoffrey Howe, Members of E Committee and to Sir Robert Armstrong.



NIGEL LAWSON

16 October 1980

17 OCT 1980



C O N F I D E N T I A L

PRIME MINISTER

BGC: DISPOSAL OF OIL ASSETS

At 'E' Committee on 15th September I reported that the British Gas Corporation (BGC) had commissioned Lazards to advise on the disposal of a majority holding in their oil assets in a way consistent with statutory obligations. I said I would report further in October, on the basis of Lazards' report.

An interim report from Lazards was considered at a special meeting of the BGC Board on 3rd October. Lazards apparently envisage a scheme whereby 60% of all the Corporation's offshore and onshore oil interests retained in an existing company would be sold to the public. For marketing the operation, Lazards believe that an important factor in achieving an acceptable market price for the shares is the continuation of the proven management of British Gas under a contract with the company. They also identify other matters to be resolved ahead of a flotation, such as taxation liabilities, any pre-emptive rights of other companies, and the future exploration position for British Gas. (We shall clearly need to sort some of these matters out ourselves with BGC). Lazards have made considerable progress but have not yet devised a scheme in sufficient detail that could be put to the Board. The Board have therefore asked them to continue with their work.

It is encouraging that BGC are now adopting a constructive attitude to the disposal of their oil assets. If we can achieve the solution on the lines now being examined, I believe that it would achieve our objectives better than the forced disposal of Wytch Farm. It could raise around £200m as against the £100m for the disposal of Wytch Farm interests only. Moreover, the shares in the separated oil company could be sold to the public at large, whereas BP, as BGC's

/partners.....

C O N F I D E N T I A L

C O N F I D E N T I A L

partners in the Wytch Farm holding, have the right to match any offer for it.

Sir Denis Rooke has asked for my confirmation that we wish the Corporation to continue working along the lines indicated. I recommend that we should do so. I would, of course, keep up the pressure on EGC and, if a practicable scheme satisfactory to us is not endorsed by the Board at an early date, I would issue a direction to them to dispose of their Wytch Farm holding.

I hope you can agree that we should proceed in this way and that I should inform Sir Denis Rooke accordingly.

I am copying this minute to our colleagues on E Committee and to Sir Robert Armstrong.

JH
7

Secretary of State for Energy

8 October 1980

C O N F I D E N T I A L



-8 OCT 1980



Ref A02989

PRIME MINISTERDisposal of BGC Oil Assets
(E(80) 97)

You will recall that in his earlier memorandum (E(80) 81) the Secretary of State for Energy discussed two options whereby the British Gas Corporation would either -

- a. sell their 50 per cent holding in the Wytch Farm Oil field in Dorset yielding around £100 million, possibly in 1980-81, or
- b. group their oil interests in a new subsidiary and sell a majority of the shares in it to yield £200 million plus in 1981-82.

2. The Chancellor of the Exchequer wanted the first alternative, mainly because he saw it as essential if the Government was to achieve its published target of disposals totalling £650 million cash in 1980-81. He also felt that BGC had been allowed to drag their heels for far too long. The Secretary of State for Energy was strongly in favour of the second course, in part because it was less objectionable to the Corporation and in part because it should yield a greater sum, even though there would be no prospect of seeing this in the present financial year.

3. At their meeting on 6 August the Committee invited the Secretary of State for Energy to consult the BGC urgently with a view to securing their agreement either to the sale of the Wytch Farm holding in 1980-81, or to his proposals for the sale of shares in a new oil subsidiary, and to report the outcome in September (E(80) 30th Meeting, Item 3).



4. In his present paper (E(80) 97), the Secretary of State for Energy reports that he has made some useful progress. Sir Denis Rooke remains strongly opposed to either course - as is clear from his letters of 23 July and 27 August annexed to the paper - but he has agreed to commission Lazards to advise on the possibilities for sale of shares in the oil subsidiary. They will do so in time for the Corporation to give the Secretary of State their reactions and proposals early in October.

5. If BGC do not then put forward an acceptable solution, the Secretary of State for Energy proposes to issue a direction to require them to sell their Wytch Farm holding. This direction and the letter formally consulting the Corporation on it have been drafted so that if necessary the direction can be laid soon after the House reassembles on 27 October.

HANDLING

6. After the Secretary of State for Energy has introduced his paper you will wish to invite the Chancellor of the Exchequer to comment.

7. It seems highly likely that the Committee will agree to the Secretary of State's proposals. He has now succeeded in moving Sir Denis Rooke to take some positive action, and he has established a firm timetable with a practicable fall back position. Even if it were thought unlikely that BGC would be willing to go along with the scheme on the basis of Lazards' proposals, there would be no advantage in going ahead with the Wytch Farm direction immediately because it has to be laid for 40 days while the House is sitting.

8. The Chancellor of the Exchequer may wish to comment on the implications for the £630 million disposals target in 1980-81.

CONCLUSIONS

9. In the light of the discussion you will wish to record conclusions -



i. On whether the Committee endorses the recommendations in paragraph 7 of E(80) 97 that BGC should be given until October to make further proposals and that, failing a satisfactory outcome then, a direction should be issued to require the sale of their interest in Wytch Farm.

ii. Inviting the Secretary of State for Energy to report the outcome and his proposals for the next steps in October (it may be that it will be possible to clear this in correspondence rather than in discussion).

A handwritten signature in black ink, consisting of the letters "R" and "A" in a stylized, cursive font.

ROBERT ARMSTRONG

12 September 1980



Econ (80)
✓ MRP

Treasury Chambers, Parliament Street, SW1P 3AG

31 August 1980

Michael Roberts Esq MP
Parliamentary Under-Secretary
Welsh Office
Gwydyr House
Whitehall
LONDON
SW1A 2ER

Mr Michael

NEW TOWNS - DISPOSAL OF ASSETS

Thank you for your letter dated 15 August. I welcome the developments so far and note that you will be sending a further report in the autumn.

I am sending copies of this letter to the Prime Minister, Members of E(DL) and Sir Robert Armstrong.

Un
E(L)
Nigel

NIGEL LAWSON



GWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)
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Oddi wrth yr Is-Ysgrifennydd Seneddol



WELSH OFFICE

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WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switchboard)
01-233 7172 (Direct Line)

From The Parliamentary Under-Secretary

Elan P. J. M.P.

15th August, 1980.

Dear Nigel,

NEW TOWNS - DISPOSAL OF ASSETS

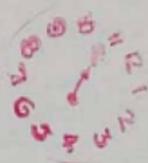
In his letter of 8 July, Nicholas Edwards promised to let you know of further developments in relation to the disposal of assets by Cwmbran Development Corporation. I am glad to say that following discussion with David Young, who has visited the town to assess the prospects, the Corporation are selecting agents to put properties on the market. They hope to realise £1.6 million to £2 million in this financial year. I will let you have a further progress report in the autumn.

I am sending copies of this letter to the Prime Minister, members of E(D) and Sir Robert Armstrong.

*Yours ever,
Michael*

MICHAEL ROBERTS

Nigel Lawson, Esq., MP,
Financial Secretary to The Treasury,
Treasury Chambers,
Parliament Street,
London SW1P 3AG



19 AUG 1980



From RA

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

6 August 1980

The Rt. Hon. Norman Fowler, MP.,
Minister of Transport

TL

Dear Norman

6/8

NATIONAL FREIGHT CORPORATION: DENATIONALISATION

You wrote to me yesterday evening reiterating your strong preference for early incorporation in the case of the National Freight Corporation, emphasising the strong support for this course expressed at E(DL) yesterday.

As I made clear in my letter to Adam Butler of 8 July, I believe that we must think carefully about the risks, in particular the potential loss of control to the detriment of public expenditure and the PSBR, before embarking on incorporation in advance of flotation. We must also avoid making an empty gesture which would expose us to criticism and constant pressure. Incorporation by itself will not hasten the process of privatisation: that must depend on market conditions. On the other hand, colleagues at E(DL) clearly judge the political risk worth taking in the case of NFC and I would not therefore want to press my reservations of principle further.

However, it will be essential if we are to control the contribution of the NFC as a public sector company to public expenditure and PSBR to maintain controls over investment and borrowing identical in substance with those in force for statutory corporations and to ensure that they operate effectively.

I must therefore make it a condition of early incorporation that such controls should be in place before incorporation takes place. We will need to consider whether this might best be done by special provisions in the Articles of Association (which would lapse on flotation) or by a Memorandum of Understanding (which could be legally binding). The new company should also have a published external financing limit and be treated for monitoring etc. purposes as part of the nationalised industry sector. I would have preferred to have established satisfactory arrangements of this sort before you made a statement committing us to early

/incorporation.



incorporation. However, there is an argument in favour of an early announcement to let Parliament know your intention of foregoing benefits to the Exchequer. I would therefore be content for you to make the statement as you propose provided that the position of financial control is made clear in the statement itself. I suggest this could be done by amending the third paragraph of the draft which you send me to read:

"While the Company remains in the public sector I shall of course continue to exercise financial controls over investment and borrowing similar to those which now apply to the Corporation. I shall be considering how this might best be done. During the period of 100 per cent Government ownership the Company will continue to have a published external financing limit within which it must operate. I have no doubt ..."

I am also concerned by the absence of any provision for a dividend payment if the sale of NFC is delayed beyond the early part of 1981. It would hardly seem to provide a good prospectus for sale if the Company were to pay no dividends for more than a single year. I would therefore like to see a provision for dividend payment reflected in your statement. Again this could be done by a small addition to paragraph 6 of the draft statement on the following lines:

"... the immediate effect will be to relieve the Board from the need to meet fixed interest payments of approximately £9 million a year. Instead, the Company will have to consider and settle with the Government an appropriate level of dividend to be paid on its shares. I will expect the Board, while the Company remains wholly owned by the Government, to use any improvement in their financial position as a result of this arrangement to reduce its bank and other borrowings from the private sector."

I am copying this letter to the Prime Minister, Keith Joseph and the members of E(DL) and to Sir Robert Armstrong.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to be 'G. Howe', with a horizontal line underneath.

-7 AUG 1980 7)

11 12 1 2
10 9 8 7 6 5 4 3

CONFIDENTIAL

Ref. A02815

PRIME MINISTER

Disposal of BGC Oil Assets

(E(80) 81)

BACKGROUND

The possibility of selling BGC's share in the Wytch Farm oil field (50 per cent, the other 50 per cent being owned by BP) has been before Ministers in E(DL) for more than a year. The Secretary of State for Energy has consistently opposed a straight sale using arguments varying from doubts about his legal powers to hopes about the incorporation of Wytch Farm into some wider scheme of privatisation. The consistent theme however has been the fierce resistance he has foreseen from BGC to a forced sale.

2. In his present paper the Secretary of State for Energy again recommends pressing the British Gas Corporation to group their oil interests into a separate company, and then to sell a majority of the shares in it on the market, rather than pressing them to sell Wytch Farm. Although the issue is properly one for E(DL) the Secretary of State asked to bring his paper directly to E on the grounds that the decision raises wide political issues. He does not define these issues very clearly (though some of your colleagues may feel that among them is - or ought to be - the degree of independence to be accorded to BGC).

3. The proposals need to be considered against the background of the Government's target for raising £630 million cash from disposals in 1980-81 (a target which arguably included £200 million from BNOG or BGC). In his letter of 1st August to the Secretary of State for Energy, the Chancellor of the Exchequer explains that only £450 million is fairly firm so far. In his view, failure to achieve the target would not only add to the PSBR but would also call into question the Government's will to carry through its strategy.

Sale of Wytch Farm alone

4. This might raise between £90 million and £130 million. The Secretary of State for Energy is statutorily bound to consult BGC about any intention to dispose of Wytch Farm. He believes that they would maintain their strong opposition to the sale - they found the oil after their partners, BP, had given up the search.

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5. In that event he could consider using his powers under the Gas Act 1972 to direct a sale. The Attorney General's advice, in paragraph 14 of his letter of 29th July to the Secretary of State, seems to be that it would be possible to use this power in the circumstances, though he would wish to advise further in the light of the statutory consultations if they proceed. In this letter the Attorney General also dismisses as a red herring the Secretary of State for Energy's argument that the Government could not direct BGC to sell in the run up to the Budget when it might be forming policies for changes in relevant taxation.

6. The Secretary of State for Energy goes on to argue that, even if he has the powers to direct BGC, it is now too late to be confident that the disposal could be made in 1980-81. A direction has to be laid for forty days not counting the Recess. After that BGC have to seek bids and to negotiate with their partner, BP. He does not expect BGC to be co-operative.

7. In his letter of 1st August the Chancellor of the Exchequer refuses to accept this. He recommends that the Secretary of State should not procrastinate further but should make clear to BGC the Government's determination to go through with this sale and its readiness, if they still refuse to co-operate, to lay the direction as soon as the House returns.

A New Company

8. The Secretary of State for Energy's preferred alternative is for BGC to group their oil interests into a separate company. Shares would be sold to leave BGC with a minority holding of about 45 per cent, or 25 per cent if the sale were to exclude Wytch Farm. Either course would yield around £200 million, but not in the current year.

9. This proposal appears to be no more acceptable to BGC than the sale of Wytch Farm, but the Secretary of State proposes to press for their co-operation with the alternative of amending legislation to dispel any doubts, should that be necessary, about the validity of a direction to BGC to dispose of these assets. There is no provision for such legislation in the coming Parliamentary Session.

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HANDLING

10. You will wish to invite the Secretary of State for Energy and the Chancellor of the Exchequer to put their arguments to the Committee. The Solicitor General, who will be representing the Attorney General, can advise on whether a direction could be given or whether further legislation is likely to be necessary. The Secretary of State for Industry, as Chairman of E(DL), may wish to comment.

11. The main questions are:-

(i) Does the Committee agree that the Secretary of State for Energy should now put his full weight behind ensuring that Wytch Farm is sold in 1980-81 in order to give the Government a chance of meeting its disposals target of £630 million?

or

(ii) Do they prefer to abandon the 1980-81 disposals target in favour of the possibility of a higher yield from the sale of shares in the proposed new company in a later year?

(iii) Should the two courses be combined - by selling Wytch Farm this year and the other oil interests, or part of them, later?

CONCLUSIONS

12. In the light of the discussion you will wish to record conclusions inviting the Secretary of State for Energy:-

Either

to persuade, or to direct immediately after the Recess, BGC to press ahead urgently with the sale of their stake in Wytch Farm in 1980-81,

or

to negotiate further, as proposed in paragraph 8 of E(80) 81, for the sale of shares in a new BGC oil company,

or

to do both.



(Robert Armstrong)

5th August, 1980

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET
SW1P 3EB



*With the Compliments of the
Minister of Transport*

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Sir Geoffrey Howe MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON SW1

By 8

5 August 1980

Geo *Geoffrey*

DENATIONALISATION OF THE NFC

We have already spoken about the discussion of my proposals for the National Freight Corporation at E(DL) earlier today, and no doubt John Biffen will also have put you in the picture.

There is little I can usefully add to the arguments that have already been adduced for early incorporation in this particular case, and which received strong support at E(DL) this morning. The prospects of a successful sale next year are real but finely balanced, and a little help at this stage could make all the difference between success and failure. I believe that it is politically important that we should be able to show some tangible progress with our privatisation policy and the NFC presents a good opportunity for doing so in the way I am proposing. But there are two further factors, which I believe are unique to the NFC, and which constitute additional reasons for making the changes sooner rather than later.

First, there is the problem of the Board which, with no full-time executive member, is not plausible in the eyes of the City. I must clearly put that right as soon as I can.

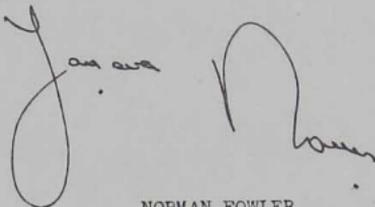
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Secondly, there is the problem of the growing pension deficiencies. If we do not seize the opportunity, which could be short-lived, to get rid of this liability by means of an outright sale then we will eventually have to tackle it some other way. History suggests this could be very costly.

I am, as you know, anxious to clear the way for these changes with a statement to the House before the recess. My officials are already in touch with yours about the details of a possible written answer (a draft of which is enclosed) which I would like to be able to make on Thursday. I very much hope you can agree that the way is now clear for me to go ahead on these lines.

I am copying this letter to the Prime Minister, Sir Keith Joseph, members of E(DL), John Biffen and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Fowler', written in a cursive style. The signature is positioned above the printed name.

NORMAN FOWLER

CONFIDENTIAL

~~THE~~ DRAFT 5 AUGUST 1980

QUESTION: To ask the Minister of Transport what steps are being taken to prepare for the sale of the National Freight Corporation and if he will make a statement.

DRAFT ANSWER: I intend to transfer the National Freight Corporation to the private sector at the earliest practicable date. For a number of reasons, and in particular the need to complete a full actuarial assessment of the Corporation's pension funds, I am advised that the earliest a flotation would be practicable is in the early part of 1981.

To this end I intend, with the agreement of my Rt hon Friend the Chancellor of the Exchequer, to make an order under Section 45 of the Transport Act 1980 appointing a day at the beginning of October for the transfer of the undertaking of the Corporation to the National Freight Company Limited, which was formed and registered for this purpose on 30 June 1980, and also for the simultaneous dissolution of the National Freight Corporation.

By removing the constraints of nationalised status under the Transport Act 1968, this step will enable the NFC to make the most of the wider commercial opportunities that will be available to them as a company with widely drawn memorandum and articles of association. While the company remains wholly in Government ownership I shall of course, continue to exercise financial controls similar to those which now apply to the Corporation. I have no doubt that this change to ~~the~~ company status is the surest way to safeguard the future prosperity of the undertaking as a whole, and of its employees.

Whilst the exact timing of the sale must depend on market conditions, my present intention is to offer the shares to the public in the early part of 1981. An interim period of operation as a limited company before flotation will enable the new Board, their managers and workforce to adjust to the new conditions, and will also assist potential investors to assess their performance.

I have also concluded that it would be wrong to burden the new company with fixed debt to the Government. The outstanding commencing capital debt of the Corporation amounts to £50.4m and subsequent borrowing from the National Loans Fund to £49.6m (details are shown in the Annexed schedule). These debts will, under the provisions of section 45(4) of the Act be extinguished immediately before the appointed day. I do not propose to require the company to assume any corresponding amount of debt.

Under section 46 of the Transport Act 1980 I shall require the National Freight Company Limited, as successor to the Corporation, to issue to me an appropriate number of ordinary shares, credited as fully paid up. The immediate effect will be to relieve the Board from the need to ^set aside money to meet interest at the rate of approximately £9m per annum. I will expect the Board, while the company remains wholly owned by the Government, to use this resource to improve the financial position of the new company by reducing its bank and other borrowings from the private sector.

This loss of interest to the Exchequer should in part be reflected by an enhanced price for the shares when these come to be sold. I am satisfied that any eventual net loss of funds to the

Exchequer is justified by the need to provide a firm basis for a successful issue of shares to the public.

I will be announcing further details of the arrangements for these changes in due course.

10 AUG 1980





Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

BRITISH GAS DISPOSALS - WYTCHE FARM

Keith Joseph reported to you on 26 June E(DL)'s conclusion that David Howell should pursue a BGC contribution to the 1980/81 asset disposal exercise. David's letter of 24 July reports BGC's outright opposition not only to the sale of BGC's share in the onshore oil field, Wytch Farm, but also to his preferred alternative of the sale of shares in a potential subsidiary holding BGC's oil fields. In any case, it was already pretty clear to E(DL) that only the Wytch Farm option was realistically likely to bring in proceeds this year, of around £100 million.

2. David Howell has now asked to take this question to E Committee, on the grounds that the forced sale of Wytch Farm raises "wide political issues and indeed the whole question of our future relationship with BGC". We are now to discuss it next week. You will see that I have today written to David in response to his letter of 26 July, so that our colleagues can be aware of my view of points made in his letter (now largely repeated in his paper E(80)81) and the overall state of our asset disposals programme. The purpose of this minute, which I am not copying to our colleagues, is to emphasise the importance which I place on achievement of the asset disposals target, and the fact that without Wytch Farm our chances of doing so are very badly damaged.

/The position on this



3. The position on this year's asset disposals programme is far from reassuring: on "fairly firm" candidates my latest estimate is that we are at present nearly £200 million short. The other possibilities currently under consideration are not big enough or certain enough to bridge the gap without Wytch Farm. And there are no apparent new alternatives for the programme.

4. It is hard to see that Wytch Farm is in any way central to BGC's activities. It is an oil field, onshore. The most likely purchaser is BP, the Corporation's partner in the field. It seems most unlikely that UK security of oil supply would be significantly affected by the disposal, in view of the geographical location of the field - its oil is currently dedicated to a UK refinery, and export seems unlikely to be economically attractive. Apart from BGC's objections, which we have always expected, I see no rationale for Wytch Farm staying in the public sector.

5. David Howell has over the past year been repeatedly pressed for progress on a contribution from Wytch Farm (or other BGC disposals) to our asset disposals programme. Having got it accepted that it need not be sold to bring proceeds for the 1979/80 programme, his aim now seems to be to talk it out until proceeds are impossible this year. Despite the doubts about timing expressed in his letter to Keith Joseph we have not in my opinion yet reached the stage where proceeds cannot come in this year. But if this prevarication goes on much longer we may do so.

/Our disposals target

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6. Our disposals target is not going to be easy to meet. Without Wytch Farm, the prospects are severely damaged. Achievement of the target is important not only for the direct PSBR benefits, it brings, but for confidence in our determination to pursue our strategy. I feel strongly that E should confirm E(DL)'s conclusion, and ask David Howell to stop fighting this result and work full out for the achievement of 1980-81 proceeds from a Wytch Farm sale.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

G.H.

/ August 1980



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

1 August 1980

The Rt. Hon. David Howell, MP.,
Secretary of State for Energy

TL

Dear Secretary of State,

DISPOSAL OF BGC ASSETS

I have seen your letter of 24 July to Keith Joseph explaining the outcome of your discussions with Sir Denis Rooke, and your resulting doubts about proceeds from the disposal of BGC assets this financial year. I have also seen Michael Havers' letter of 29 July.

I am not, of course, surprised at your conclusion that the oil asset subsidiary route will not bring in proceeds this financial year, especially now that you have established that the Corporation are not well disposed to the idea. It is clear from the discussion at E(DL) that this outcome was expected by all parties, and that the only realistic way of raising your contribution to this year's asset disposals target was by a sale of BGC's share in the Wytch Farm oil field. You recognise in your second paragraph that, despite the outright opposition from BGC, this nevertheless was a course which might be justified if we could be sure that the sale of Wytch Farm would produce money this year. The position on the asset disposals programme so far leads me strongly to reiterate the position we have consistently taken on Wytch Farm, that we must go for proceeds this year if at all possible. For reasons I discuss below, I do not at this stage share the degree of doubt you have about this outcome, and there is no question that we can abandon the proposal at this stage.

The position on the asset disposals programme as a whole is largely as it was reported to the E(DL) meeting on 24 June, though if anything with rather reduce prospects from the candidates available to us. Our latest estimate of the proceeds from the "fairly firm" options is now around some £450m, compared with a target of £630m; and the candidates, apart from your own, in the "other possibilities" category are no more certain than they then were. It remains my opinion that we should regard it as of major concern if we were to fall short on our asset disposals exercise this year.

/It is not



It is not only a question of the benefit to the PSBR from the individual proceeds, but a question of confidence in the Government's ability and determination to carry through our strategy. Without Wyitch Farm, the prospects of achieving this target are severely limited.

I recognise that BGC's opposition is an unfortunate aspect of this proposal, but it is not a new one. We have always known that the Corporation would oppose the sale of the Wyitch Farm oil field. You have repeatedly been invited to pursue this possibility, more recently coupled with your own preferred course of selling equity in an oil field subsidiary. Now that BGC's opposition to the latter course has been added to the already severe doubts whether it could have brought in proceeds in 1980-81, we are left with Wyitch Farm. I do not accept that it is impossible to bring proceeds in this financial year from the sale of Wyitch Farm, and I do not believe that the Corporation's opposition is sufficient reason not to pursue it, with the greatly reduced prospect for the asset disposals target that this would bring.

Certainly, the timetable will be tight. But Michael Havers' letter confirms my own feeling that the difficulties are not as great as you suggest in your letter. I note his view that you may be able to form a view favourable to the disposal of Wyitch Farm without amending the Gas Act 1972. Naturally you will have to go through the consultation procedure and the process of coming to a judgement about the effects of a sale on the proper discharge of the Corporation's duties which you outline in your third paragraph. But unless the view you are then able to come to is inconsistent with section 7(2) of the Act, I do not see that the process of consultation and laying a direction would place a serious constraint on your ability to achieve the sale of Wyitch Farm this year.

I was also glad to see Michael Havers' firm conclusion that your ability to direct a BGC sale of Wyitch Farm would not be constrained by the Budget. I recognise the apparent similarities to the BP share sale that led you to consult the Law Officers on this point, but I can only agree with the Attorney that this does not seem a real problem here. This clearly removes one of the main timing difficulties you had foreseen.

Once you have demonstrated your determination to direct the Corporation by laying the necessary instrument before the House, you should be able to achieve a degree of co-operation from BGC in setting negotiations in hand, even before the direction takes effect. Nor could I accept that, once under direction from yourself, it would be right for us to suppose that BGC would - or would wish to - frustrate our objective.

/I should naturally

CONFIDENTIAL



We are, of course, to discuss these matters in E Committee next week. If your own worries about the available time are not to be reinforced, it is imperative that you undertake the necessary consultations and preparations before we return in the autumn, so that the direction - if BGC remain intransigent - can be laid as soon as possible when the House returns.

I am sending a copy of this letter to the Prime Minister, members of E and E(DL), the Attorney General and Sir Robert Armstrong.

R. Tolmie (Private Secretary)

for

GEOFFREY HOWE

CONFIDENTIAL



1 AUG 1960



2
~~PRIME MINISTER~~
TOLA
MS
1/8

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

ms

CONFIDENTIAL

Prime Minister

REVIEW OF FORESTRY POLICY

Your Private Secretary's letter of 30 July conveys your approval to the forestry policy proposals outlined in the E Committee paper I circulated on 18 July, subject to further consideration of the timing of a statement. In the light of current difficulties in the paper and board industries referred to by Keith Joseph the Forestry Ministers have agreed to defer a substantive statement until later in the year.

We will keep in touch with the Departments concerned both about the content and timing of a statement. In the meantime agreement to the policy will allow the drafting of the necessary legislation to proceed. We would propose to introduce a Bill next session, with the timing to be considered along with that of the proposed substantive statement.

There has been an expectation that a substantive statement on the policy review would be made before Parliament rose for the summer recess. The Forestry Ministers feel therefore that it is necessary to make a holding statement on the lines of the annex to this minute. Arrangements are being made to table this question for answer as soon as convenient.

I am sending copies to members of E Committee, Humphrey Atkins, Nicholas Edwards and to Sir Robert Armstrong.

J.S. Wilson
(Approved by the Secretary of State and signed in his absence.)

31 JULY 1980

ANNEX

To ask the Secretary of State for Scotland, if he is in a position to make a statement on the Government's review of forestry policy.

Substantial progress has been made but we are not yet in a position to announce our final decisions. It is our intention to make a statement as soon as our discussions are complete.

31 JUL 1980





DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

31 July 1980

Rt Hon Sir Geoffrey Howe QC MP
 Chancellor of the Exchequer
 HM Treasury
 Treasury Chambers
 Parliament Street
 SW1

B. 118

Dear Geoffrey,

- ...
- I enclose a copy of a letter I have received from Derek Ezra about what he calls "positive purchasing" - you may also like to see his earlier letter of 12 June. In effect he is suggesting that we widen into the private sector our public purchasing policy, for which he is a strong supporter. You made this point in your letter of 20 May.
- 2 You will see that he proposes we launch such an initiative on an informal basis in the first instance, and Gordon Brunton, the President of the International Thomson Organisation, is prepared to host lunches on 30 September and 3 October for this purpose. I am free and have accepted the invitation for 30 September and I wonder whether you could manage 3 October. This would give us both an opportunity to assess the likely reaction to such an initiative on a wider scale before we decide on such a course. I imagine that if 3 October is inconvenient, they would be able to select an alternative date if you are willing to attend.
- ✓ 3 I am copying this letter to the Prime Minister since I am sure she will be interested to learn about Derek Ezra's ideas.

*Yours,
 Ken*

NATIONAL COAL BOARD
HOBART HOUSE
GROSVENOR PLACE
LONDON SW1X 7AE

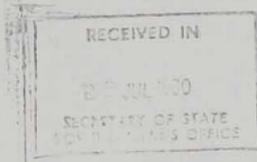
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FOR ADVISE (AND DRAFT REPLY IF APPROPRIATE) PLEASE BY:	Stirling Sec Dr Davies Mr Murrell Mr R Cooper Mr I Lightman Dr Cooper
1/8/80	

CHAIRMAN

24th July 1980

Rt. Hon. Sir Keith Joseph, Bt, MP,
Secretary of State for Industry,
Department of Industry,
Ashdown House,
123 Victoria Street,
London, SW1E 6RB



Dear Keith,

Thank you for your letter of 7th July in answer to mine of 19th June on the subject of "positive purchasing".

I am glad that you generally favour the views I have put forward and that they are in line with the approach you have recently discussed at the NEDC.

You suggested that I should raise this issue with the Chairmen of the Nationalised Industries at their next meeting. That meeting took place on 10th July, when I made the proposal that, in addition to responding as positively as possible to the approach made to each Chairman through departmental channels, a plan of action (of the sort mentioned in my letter of 19th June) should be put in hand. I am glad to say that this was agreed, and I was invited to set out in detail what was required. I am now doing this; and will speed up the NCB's submission so that this can serve as a guide to the other industries.

I will ensure that you are kept fully informed of the progress we are able to make.

I understand that in the meantime this subject has been taken up with Government Departments and that Mr. Templeman, our Director-General of Purchasing, was able to assist at a meeting on 22nd July. We would certainly be prepared to give any further advice that may be required.

/...

I have been giving some further thought on how a suitable and parallel initiative could be launched in the private sector, divided between manufacturing and distribution. We have done a limited amount of research, and this has revealed the following:

(i) Manufacturing

We have taken the top 50 manufacturing firms, excluding the following:

- (a) Firms whose business is based on imported commodities, e.g. metalliferous mining and foodstuffs.
- (b) International trading and brokerage companies.
- (c) Companies in service industries, e.g. insurance, civil engineering, hotels and catering.
- (d) Firms which are subsidiaries of foreign based multi-nationals, e.g. Ford, IBM, Michelin (these could be tackled at a later date).

Using published statistics we have concluded that the relationship of purchases to turnover in this group is likely to be of the order of 50%. Their combined turnover is nearly £44,000m. and therefore their purchases can be assumed to amount to about £22,000m. Overseas purchases, as a proportion of total purchases, based on the recent documentation prepared by NEDO, probably amounted to at least one third, or say £7,000m. It is this element which needs to be identified in detail and then vigorously tackled by either collective or individual approaches to the firms (listed at Appendix I).

(ii) Distribution

A similar exercise, relating to 14 major concerns shows a combined turnover of £11,000m., purchases in this case being higher, say 60%, or £6,600m. Although there are obvious exceptions (such as Marks & Spencer) it could well be that about half the purchases in this group come from abroad or say £3,000m. The firms in question are listed at Appendix 2, and I suggest the same sort of approach as in (a).

We should bear in mind that a swing of only 10% from the estimated overseas purchasing to home purchasing in these two groups could improve the balance of payments by £2,000m. This would firmly put us in surplus on our visible account, and would be additional to any benefits achieved in public sector purchasing.

I have been informally discussing an approach of this sort with a number of friends in industry and have had a favourable reaction. In particular, Gordon Brunton, the President of the International Thomson Organisation, would like to help, and has kindly offered to give two informal lunches at their offices (Thomson House, 4 Stratford Place, W.1) on 30th September and 3rd October to which a number of the industrialists drawn from the list I have prepared could be invited. This would provide an opportunity for floating these ideas informally to an influential group. We would be delighted if you could attend at least one of the lunches, and I understand from your office that you might be free on 30th September.

I would be glad to have your confirmation of these proposals.

M,
Derek

Derek Ezra

LEADING U.K. MANUFACTURING COMPANIES

<u>Company</u>	<u>Turnover (£m)</u>
I.C.I.	4533
B.L. (1)	3073
G.E.C.	2343
Guest Keen and Nettlefield	1755
Courtaulds	1662
Reed International	1611
Bowater Corporation	1564
Dunlop Holdings	1475
British Oxygen Company	1196
Tube Investments	1106
Rank Xerox	1092
Thorn Electrical (2)	1092
Thomas Tilling	1026
Hawker Siddeley	1007
B.I.C.C.	991
Lucas Industries	971
E.M.I. (2)	873
Beecham Group	866
Metal Box	807
Babcock and Wilcox	778
Phillips Electronics	718
Rolls Royce (1)	704
Coats Paton	679
British Electric Traction	631
Plessey	611
Hanson Trust	605
Glaxo	544
Turner and Newall	541
Massey Ferguson	538
I.M.I.	524
I.C.L.	509
S.T.C.	509
Pilkington Bros.	470
Northern Engineering Industries	451
Delta Metals	449
Blue Circle	437
Dickinson Robinson Group	402
Tootal	401
Vickers	391
B.T.R.	386
Wellcome Foundation	382
Davey Corporation	371
Powell Duffryn	344
Albright and Wilson	342

<u>Company</u>	<u>Turnover (£m)</u>
Fisons	329
Associated Engineering	324
Carrington Viyella	323
Glynwed	316
Mardon Packaging	311
Chloride Group	306
	<hr/>
Total turnover of 50 companies	43,669
	<hr/>
Estimated value of purchase (50% of turnover) -	£22,000 m

- (1) BL & Rolls Royce included although largely state owned
- (2) Thorn and EMI now merged

Information extracted from The Times 1000 1979/80

LEADING U.K. DISTRIBUTION COMPANIES

<u>Company</u>	<u>Turnover</u>
Marks and Spencer	1473
Great Universal Stores	1154
Sears Holdings	1103
Boots	1053
J. Sainsbury	989
Tesco	953
Woolworth	823
Littlewoods	799
House of Fraser	569
John Lewis Partnership	505
Debenhams	496
W. H. Smith	474
United Drapers	395
British Home Store	307
 	<hr/>
Total, 14 Companies	11093
 	<hr/>
Estimated purchases (60% of turnover)	£6600 m

Information extracted from The Times 1000 1979/80

RECEIVED IN
23 JUN 1980
SECRETARY OF STATE
FOR INDUSTRY'S OFFICE

CHAIRMAN

NATIONAL COAL BOARD
HOBART HOUSE
GROSVENOR PLACE
LONDON SW1X 7AE

01-235 2020

TO MR *newale* *John* COMES TO
FOR *ADVICE* (AND)
DRAFT REPLY IF
(APPROPRIATE)
PLEASE BY:
if app
Mins
Sec
DR Dawles
MR Manzie
MR Cooper
MR Leeming
DR Copstone
(MR CASEY) *TJ/AF*
17/6

19th June, 1980

Rt. Hon. Sir Keith Joseph, Bt, MP,
Secretary of State for Industry,
Department of Industry,
Ashdown House,
123, Victoria Street,
LONDON SW1E 6RB.

Dear Keith,

Positive Purchasing

I was very pleased to have had the chance of a chat with you on the occasion of the CBI dinner on 20th May, when we briefly discussed the need for a positive purchasing policy to reduce the flow of imports and encourage additional exports. I am glad that you subsequently arranged for Mr. Manzie and Mr. Leeming to see me and, as you will no doubt have gathered from them, we had a useful meeting on Monday, 9th June.

My suggestions stem from the substantial current deficit in our visible trade balance (although there was some improvement last month). This deficit is largely due to the increase in the amount of imports of engineering and manufactured goods in the past year to eighteen months.

The question is how to limit the tide of imports without jeopardising the flow of exports. This would appear to rule out any overt measures, such as import controls (other than those consistent with international agreements) and an official Buy British campaign.

So, if there is to be action, what form should it take? I have for long held the view that if the buying policies of the principal purchasing enterprises in the public and private sectors could be suitably motivated by informal approaches, a great deal could potentially be achieved. Buying more from British sources undoubtedly requires a great deal of effort in these difficult times. But there are some, in both the public and the private sectors, who have made the effort with noticeable results. Many more should be encouraged to follow their example. That is the object of my proposals.

Accordingly, at my meeting on 9th June, I suggested the following plan of action:

/...

- (1) Identification of main purchasing organisations in:
 - (a) Public sector - services and non-trading activities;
 - (b) Public sector - nationalised industries;
 - (c) Private sector - manufacturing;
 - (d) Private sector - distribution.
- (2) Under each of these categories the principal buying organisations or enterprises should be identified with indications of the value of their total annual purchases. Some attempt should also be made on the basis of the information available to estimate the proportion of these purchases acquired abroad.
- (3) The Chairmen or chief executives of these organisations or enterprises should be seen in appropriate groups at top governmental level to stress the importance of purchasing policies which minimise imports and maximise exports. Examples of firms or enterprises already doing this could be quoted. The organisations should be invited to nominate one of their directors or senior executives who would personally take charge of a suitable review of their purchasing policy and be in touch with a nominated individual in the Department of Industry. The aim would be to prepare, within a three month period, a plan of action which could lead to an improvement in the impact of their purchasing policy on the balance of payments.
- (4) Finally, there should be regular follow-ups with the enterprises in question.

I believe that an initiative of this sort could yield positive results. The bulk of the buying decisions which influence both imports and also to some degree export promotion are taken in my opinion by a limited number of large enterprises in the public and private sectors. If these are properly identified and motivated I am sure some practical successes could be achieved.

I would be very happy to assist in any way you think appropriate in this work, more especially as the NCB could be used as an example of what could be done.

Our total purchases last year amount to £897m, and out of this we purchased £876m. (over 97½%) in the UK and only £21m. abroad. The total value of the exports of the mining industry, including mining machinery and

Rt. Hon. Sir Keith Joseph, Bt, MP.

19. 6. 80.

technology as well as products, amounted to £286m. Our contribution to the balance of payments through positive import substitution and export promotion policies is therefore considerable (even leaving out of account the massive import saving through the fuel we produce). This is achieved by continued purposeful contact with our suppliers, both to meet our own needs and to develop overseas markets for their products.

I am sending copies of this letter to John Nott, David Howell, Cecil Parkinson, Pat Limerick, the Duke of Kent and Geoffrey Chandler - with all of whom I have discussed this issue at various times.

addition

Mr.

addition

Derek

Derek Ezra

Econ P57.



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Rt Hon George Younger MP
Secretary of State for Scotland
Dover House
Whitehall
London SW1A 2AU

R
4/e

31 July 1980

Dear George.

REVIEW OF FORESTRY POLICY: PAPER FOR E COMMITTEE

Thank you for sending me a copy of your minute of 18 July to the Prime Minister together with the memorandum from G B Forestry Ministers to 'E' Committee. I am in favour of what you are trying to achieve although I may not be able to follow suit in Northern Ireland because of differences in land tenure, the smaller average size of land holdings and the organisation of State afforestation which is a direct Departmental responsibility. I am, however, asking my Department of Agriculture to keep in touch with the implementation of your proposals with a view to considering whether or not some of them might ultimately play a part in afforestation in Northern Ireland.

I am copying this letter to the Prime Minister, other members of 'E' Committee and Sir Robert Armstrong.

Yours etc

Humphrey

CONFIDENTIAL

Econ M.R.B.



10 DOWNING STREET

From the Private Secretary

30 July 1980

FORESTRY POLICY

The Prime Minister has read your Secretary of State's minute of 18 July with which he enclosed a paper setting out his, the Secretary of State for Wales' and the Minister of Agriculture's proposals on forestry policy. She has also seen the Chancellor of the Exchequer's minute of 29 July and the Secretary of State for Industry's minute of 25 July.

The Prime Minister is content with the proposals, and provided other Ministers are content too, she believes that they can be taken as agreed without a meeting of Ministers.

In view of Sir Keith Joseph's point about the current difficulties of the paper and board industry, no doubt your Secretary of State will circulate a further note setting out his proposals on the precise timing and content of the statement he wishes to make.

I am sending copies of this letter to the Private Secretaries to the other members of E Committee, Mike Hopkins (Northern Ireland Office) and to David Wright (Cabinet Office).

T. P. LANKESTER

John S. Wilson, Esq.,
Scottish Office.

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20



10 DOWNING STREET

Dear Minister

I think this forestry
paper can be cleared in
correspondence. The Chancellor ^(Fly A)
and Sir Keith ^(Fly B) are content.

Shall I say that
the proposals can be taken
as agreed ~~unless~~ ~~or~~
provided other Ministers
are content?

MB.

12.
29/7



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

REVIEW OF FORESTRY POLICY: PAPER FOR E COMMITTEE

As George Younger's letter to you of 18 July records, I have already had some discussion with Forestry Ministers and am content with both the policy and the procedure which they propose. My officials are currently in touch with theirs about the accounting arrangements referred to in paragraph 7 of the paper and (with Inland Revenue Officials) about the possible revised structure of incentives referred to in paragraph 5.

2. I am copying this minute to Forestry Ministers, members of E Committee, Humphrey Atkins and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a stylized flourish.

G.H.

29 July 1980

129 JUL 1980



DRAFT:

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THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

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CABINET

ECONOMIC STRATEGY COMMITTEE

FORESTRY POLICY

Memorandum by the Secretary of State for Scotland, the Secretary of State for Wales and the Minister of Agriculture, Fisheries and Food

1. We invite colleagues' agreement to an early statement on forestry policy, confirming Government support for expansion at a rate consistent with the availability of resources, alternative land uses and environmental considerations, and long term market requirements for wood, indicating that we see greater scope within this for the participation of the private sector, and announcing that to facilitate this we intend to introduce legislation and consult the interests concerned.

2. The Forestry Commission (FC) and the private sector share almost equally the 1.7m hectares of productive woodlands and the 4m cubic metres of annual wood production. The long-term average annual rate of new planting has been 30,000 ha in the ratio 2 by FC to 1 by the private sector. The production forecast for 1985 is 5m and for 1990 6m cu metres, with the FC's share rising to 60%. The FC's annual grant in aid currently averages £35m at 1979/80 prices, about £25m of which finances the FC's commercial operations.

3. Expectations of a very wide-ranging reassessment of forestry policy have been aroused generally by the FC's discussion paper on the Wood Production Outlook on Britain, and another by the Centre for Agricultural Strategy at Reading; both reports considered, as maximum options, expansion at a rate which would roughly double the amount of woodland in Britain over the next 50 years. We do not consider it realistic to profess to commit Government to aims which can only be

realised over the course of half a century, and whose realisation in any case depends on the commercial decisions of landowners to make land available for forestry. While the evidence adduced justifies continued Government support for the expansion of forestry we do not think that this should go beyond the basis set out in paragraph 1 above.

4. The substantial interest in forestry investment which has also been aroused justifies, in our view, the conclusion that, given Government support for expansion, the private sector would be ready to participate increasingly in it. This would enable our general policy aim of switching the emphasis from the public to the private sector to be achieved without introducing new special measures or incentives, providing the value of the existing incentives is maintained. A possible revised structure of incentives for the private sector, taking account of the 8th Report of the PAC and of the Rayner report on FC grant aid, is being prepared by officials and it is our intention to put further proposals to our colleagues in the autumn.

5. We are however committed to an earlier statement on general policy; the level of expectations in any case makes this essential. It is our view that, in accordance with this Administration's support for private enterprise and policy of cutting public expenditure, a determined effort should be made to reduce that part of the FC's grant in aid which finances their Forestry Enterprise by making better use of their existing assets. We propose the following to encourage private investment in forestry:

- i. the sale or sale and leaseback of a proportion of freehold productive woodland;
- ii. the sale of up to about one-third of the FC's land awaiting afforestation; the remainder, being essential to the management of existing forests, or of no interest to private investors, would be the basis of the FC's continued new planting.

6. An independent financial consultant has estimated that this could raise some £75m over 6 years from 1981/82. The possible effect on grant-aid requirements is shown in the Annex. This is a new field for the FC and we should not like to be held to these precise figures or to the timing. Nevertheless there are known to be substantial funds available for investment in property, and we believe that, once the first investments have been made, it may be possible to attract even more to forestry than the estimate envisages.

7. The arrangements for accounting for the privatisation proceeds need to be carefully considered. It will be important to ensure both that Ministers are able to take account of progress in the privatisation programme when considering annually the PES provision for the Commission's programmes and that these programmes are not subject to arbitrary change resulting from unexpected fluctuations in the privatisation proceeds. We propose therefore that we should be authorised to agree appropriate accounting arrangements with Treasury.

8. Legislation will be required to make the programme possible, since the Forestry Act 1967 gives Ministers inadequate powers to dispose of forestry land. We propose that in order to enable a start to be made in 1981/82, a Bill should be included in the 1980/81 programme to enable the Forestry Commission, by extending Ministers' powers under the present Act, to dispose of land held for forestry in the interests of the better management of their assets. It is also proposed to include in the Bill provisions making consequential changes to the accounting arrangements laid down in the Forestry Act.

9. We propose that there should be an early initial statement to Parliament of our intentions, with a view to spelling out the Government's position in detail at Second Reading. Any detailed changes in the support for the private sector would also be the subject of consultations when ready and approved by our colleagues. The initial statement will need, in addition to covering the investment questions reviewed in paragraphs 5-8, to make clear our approach to forestry expansion and, in order to avoid damaging confidence, to include positive assurances of our intention to maintain the existing level of overall effectiveness of the various incentives for the industry. It will also have to show an awareness of the interests of other users of the land, notably agriculture and the general public, as represented by conservation, recreation and amenity interests. Not the

least important interest will be that of the wood processing industries, particularly in view of the possible closure of Bowater's news print mill at Ellesmere Port, and the users of small roundwood will look for reassurance that disposal of FC estates will not mean fragmentation of their sources of supply. This is essentially important in relation to the search for a large scale replacement to the Wiggins Teape pulp mill at Fort William, now about to close.

10. We therefore invite colleagues' agreement in principle to:

- a. The reduction of our grant in aid to the FC's Forestry Enterprise by utilising their existing assets to extend private investment in forestry.
- b. Legislation in 1980/81 extending Ministers' powers to dispose of FC land, and regularising the accounting procedures in the Forestry Act.
- c. A statement to Parliament before the Summer Recess outlining our legislative and investment proposals, with a view to detailed decisions on the scale and nature of the programme in readiness for Second Reading.

G.Y.
P.W.
N.E.

Scottish Office
Ministry of Agriculture, Fisheries and Food
Welsh Office

Table 1

Projected Grant in Aid of the Forestry Commission
before provision for inward investment

<u>Year</u>	<u>1980/ 81</u>	<u>1981/ 82</u>	<u>1982/ 83</u>	<u>1983/ 84</u>	<u>1984/ 85</u>	<u>1985/ 86</u>	<u>1986/ 87</u>	<u>Total 1981-1987</u>
Total Grant in Aid of which	35	31	28	26	23	22	21	151
Forestry Authority	9	9	9	9	9	9	10	55
Forestry Enterprise (a)	26	22	19	17	14	13	11	96
Forestry Enterprise net of expenditure on forest recreation and amenity	22	18	15	13	10	9	7	72

(a) Net expenditure assuming new planting as proposed in para 5 ii. and revenue from sales of wood and of surplus property disposals as currently planned.

Table 2

Possible distribution of private investment in Forestry
Commission assets over years 1981-1987

	<u>1980/ 81</u>	<u>1981/ 82</u>	<u>1982/ 83</u>	<u>1983/ 84</u>	<u>1984/ 85</u>	<u>1985/ 86</u>	<u>1986/ 87</u>	<u>Total 1981-1987</u>
Sale of plantations, sale and leaseback of land under plantations and sale and leaseback of land and trees	PENDING	5	10	10	10	15	15	65
LEGISLATION								
Sale of bare plantable land	NIL	4	4	2	-	-	-	10
Total		9	14	12	10	15	15	75
Total net of lease rents etc		9	14	12	9	14	14	72
Call on Exchequer for Forestry Enterprise Grant in Aid, net of forest recreation expenditure		9	1	1	1	-5	-7	0



CONFIDENTIAL

Evon B.

ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

01-405 7641 Extn 3201

29 July 1980

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
LONDON S W 1

Dear David,

R
377

DISPOSAL OF BGC ASSETS

I have seen your letter of 24 July to Keith Joseph, and am writing to give the legal advice now required in connection with a forced sale of Wytch Farm.

2. The proposal for disposing of BGC assets which E(DL) on 24 June agreed should be put to me (item 1 Conclusion (3) of the minutes) was of course quite different from the one now under review, and I thought it best not to give any legal advice until the issues to be put to E had been clarified following your discussions with the Chairman of BGC.
3. This turns out to have been fortunate because I do not think that the anxieties which E(DL) has expressed have any foundation in the context of what is now being considered, namely a sale of the Wytch Farm asset by direction under section 7(2) of the Gas Act 1972. On the basis that BGC oil assets might be disposed of by means of the setting up and floatation of a company, E(DL) was, I think, concerned that the advice I gave at the end of last year about the BP share sales might be relevant and could be a constraint.
4. However, in the new circumstances I do not think my earlier advice is pertinent. It can be discounted for the following reasons -
 - (1) we are not concerned, as in the case of BP, with liability for non-disclosure or false or misleading statements in a prospectus for the issue of shares, where particular rules apply;
 - (2) in any event HMG would not be the vendor, as it was in the case of the BP shares; and
 - (3) we are not at this stage concerned, as we were in the case of the BP sale, with specific fiscal policies which when announced could have an effect on the value of oil assets.

15.

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ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

01-405 7641 Extn

5. The issue for consideration here is a different one. It is whether it would be safe for you to issue a direction under section 7(2) of the 1972 Act to compel BGC to sell Wytch Farm towards the end of this financial year, given that HMG may then be forming policies for changes in tax that may affect its value. Or, put another way, whether having issued that direction you are under some legal duty to inform BGC or intending purchasers or both of any such factor so it can be taken into account in fixing the price.
6. I think the answer to this is almost certainly "no". Of course the law recognises a liability for failing to disclose relevant facts, but this depends on the existence of a contractual or fiduciary relationship with those affected, and you would not be in that position since you would not be the vendor of the asset nor would the fact that you had acted under section 7(2) create such a relationship.
7. I have also considered the possibility that a section 7(2) direction might itself be attacked on grounds that it had been issued in bad faith, in the knowledge that the price of Wytch Farm could be affected for the worse by particular tax changes.
8. But it is common knowledge that HMG reviews taxation prior to the Budget, and those who are in the market for particular assets must be taken to be aware of this. Moreover, I think the courts would be extremely reluctant to upset the principle of confidentiality of Budget decisions in favour of one or more purchasers of Wytch Farm; there is a doctrine which the law recognises that HMG cannot be fettered in the formation and carrying out of its policies in the general interest, within the framework of the law it has passed, and that principle must apply here.
9. In any case, it is doubtful whether - at the time the directions would have to be issued - there would be any information specific enough to be disclosed to the market.
10. My conclusion on balance is that there is little chance that a purchaser of Wytch Farm would succeed in legal proceedings against you alleging that non-disclosure of relevant facts had caused him to pay more for the asset than it was worth.
11. It might of course be argued that there is an element of impropriety in a decision to compel a sale without disclosure in these circumstances. Although it is not principally a matter for me, I do not think there is much in that argument, for much the same reasons as those given in 8 above in relation to liability.



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ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

01-405 7641 Extn

12. The position would of course be quite different if you gave specific undertakings to BGC or the market that there would be no fiscal changes which would have an adverse effect on the value of Wytch Farm.

13. It may well be that you would be asked for such undertakings if you acted under section 7(2), but the response would be entirely a matter of policy. However, the practical considerations are plain. Any undertaking actually given, unless it was to the effect that no adverse tax changes were planned, would be likely to depress the price or reduce the chances of a sale; it could even result in purchasers postponing their decision on whether to buy until after the Budget speech. But my instinct is that it would be unthinkable to make a prior announcement which would breach the Budget secrecy rule - although a decision on these lines could reduce interest to an extent not justified by the Budget changes actually in contemplation. But it follows from what I have said that a refusal to give any undertaking could not of itself give rise to any legal liability.

14. I have not touched in this advice on the questions raised in my letters of 8 and 14 June last to you - namely whether there is adequate power under the 1972 Act as it now stands to force a sale of Wytch Farm by means of a section 7(2) direction. I adhere to the opinion I expressed last year on this, namely that you may be able to form a view favourable to the disposal without amending the 1972 Act, but I shall be able to advise you further if you decide to proceed and the statutory consultations are completed.

15. This is copied to the Prime Minister, all members of E and E(DL) and Sir Robert Armstrong.

Yours etc.
Michael

CONFIDENTIAL

30 JUL 1980



B



PRIME MINISTER

REVIEW OF FORESTRY POLICY

I have seen the paper circulated to E Committee by George Younger on behalf of the Forestry Ministers. I agree with its proposals and appreciate the need for an early statement of the Government's intentions to reassure the wood-processing industries amongst others. But the precise timing and the content of the statement, and particularly any reference to an expansion of Forestry, will need to be carefully considered in the light of the current difficulties in the paper and board industry, not least Bowater's Ellesmere Port problems which became public knowledge on 24 July. It would be inapposite for any statement which would be seen as Government encouragement of continued expansion of Forestry to follow too closely on the heels of Bowater's problems becoming public.

2 The rate of Forestry expansion will be determined by the future tree-planting rate. When targets are set it is important that a realistic view should be taken of the long-term market prospects. There will be little point in growing more timber unless we can be reasonably assured that what is ^rgrown can be sold to the user industries at sufficiently competitive prices to allow those user industries to compete with imports coming into the UK market.

3 Copies of this minute go to the recipients of George Younger's minute of 18 July.

14

Econ P/R
Pol

Tel: 211 6402

D 217

Rt Hon Sir Keith Joseph Bt MP
Ashdown House
123 Victoria Street
London SW1E 6RB

24 July 1980

Dear Secretary of State,

DISPOSAL OF BGC ASSETS

We agreed at E(DL)80 last month, that I should continue with discussions with BGC about the options for disposal of their oil assets. I accordingly asked Sir Denis Rooke to seek his Board's agreement that BGC should group their oil assets into a subsidiary company and sell a shareholding to the public as an alternative to the outright disposal of Wytch Farm. The BGC Board have now rejected this suggestion on the grounds that it would seriously impair the Corporation's performance of their duties and that it would not be in the Corporation's commercial interest. This was a predictable initial reaction. I am not prepared to accept it and indeed intend to pursue the matter further with the Corporation. I would expect them to co-operate after I have completed full consultation with them and our final decisions have been taken. It is clear however that, in the absence of BGC's full and immediate co-operation initially negotiations are bound to take some time and there is no possibility of producing income by this route before the end of the current financial year.

At the last meeting of E(DL) we contemplated the forced sale of Wytch Farm, on my Statutory Direction, if disposal of a shareholding in a subsidiary company proved impossible in the time required to produce money for the current year. I have in the light of BGC's attitude given further consideration to this possibility. If we proceed with the forced sale of Wytch Farm, it would be in the face of outright opposition from BGC, this nevertheless might be a course which we might be justified in running if we could be sure that the sale of Wytch Farm would produce money this year. I think it most unlikely however that a forced sale of Wytch Farm would in fact raise money in this financial year.

I am first obliged specifically and formally to consult BGC about my intention to dispose of Wytch Farm, and to satisfy myself in the outcome that the disposal will not impede or prevent the proper discharge of the Corporation's duties. BGC are bound to make a case against it. I will have to weigh that case and I may need further advice from the Attorney General at that stage. Even if it appears

/safe

safe to issue a direction (without taking new legislation) it must be laid for 40 days not counting the Recess. It will thus take till December before BGC can seek bids for Wytech Farm ahead of negotiations with their field partner, British Petroleum, who have to be given up to 30 days to match any price. There might just be a chance of completing these negotiations by end of March, if all went smoothly. But I would rate it as very much an outside chance since we could hardly expect much co-operation from BGC or for them to be in a great hurry to end their role as operators of Wytech Farm.

Moreover, after November we shall be entering the Budget period. The Attorney General advised, in the context of the sale of BP shares last year, that the Government should be very careful not to seek to hide from potential purchasers anything which could have a bearing on their willingness to invest.

There is of course a difference between a sale of shares, either by flotation or by placement, and the sale by BGC of a specific asset pursuant to a statutory direction. Nevertheless I believe that we have to be sure that we could not be charged with concealing from a potential purchaser of BGC's Wytech Farm interest, information to which we were privy at the time of issuing a direction and up to completion of the sale, and which could have a bearing on the price to be offered for that asset. My officials are in contact with the Law Officers' Department on this issue. In the meantime, however, and bearing in mind the other factors mentioned above, I see a considerable risk that any sale of the Wytech Farm interest could not in any event take place before the Budget.

Furthermore if we proceeded with the forced sale of Wytech Farm, we would do so in an atmosphere of great acrimony with BGC. In the case of disposals of other nationalised industries we have been able to proceed with the support, grudging or otherwise, of the Board concerned. In the case of BGC, we would be imposing our decision unilaterally; we would have a major public row on our hands and our relations with BGC would inevitably be soured. BGC will also probably be able to enlist considerable political and press support against disposing of Wytech Farm by itself, as it is widely seen as something of a BGC success. In addition to their production activities there, they have an exploration team fully engaged in probing lower gas and oil bearing strata below the existing small field, which could well yield very much greater resources of oil and associated gas. Thus they are in mid operation. A wider divestment by introducing private capital into all their oil assets is much more likely to command support. We would also run the risk of forfeiting BGC's co-operation in achieving other important aims (such as on the gas-gathering line) which could have wide repercussions for a whole range of policies with implications for public expenditure.

I cannot therefore recommend that we proceed with the forced sale of Wytech Farm. While I fully recognise the Chancellor's concern on meeting the limits set for disposals this year, the forced sale of Wytech Farm

raises wide political issues and indeed the whole question of our future relationship with BGC. I must therefore ask that the disposal of BGC's assets should be discussed in E Committee rather than E(DL) which I do not think is the appropriate forum in which to discuss these wider issues.

I am sending a copy of this letter to the Prime Minister, Members of E and E(DL), the Attorney-General and Sir Robert Armstrong.

Yours sincerely,

R. D. WADE

pp. D A R HOWELL

(Approved by the Secretary of State
and signed in his absence)

25 JUL 1957

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Treasury Chambers, Parliament
Street, SW1P 3AG

Enclosures from the
Financial Secretary



From Pol

Treasury Chambers, Parliament Street, SW1P 3AG

21 July 1980

The Rt Hon Norman Fowler MP
 Minister of Transport
 Department of Transport
 2 Marsham Street
 LONDON
 SW1

B.
 21/7

Dear Minister,

BRITISH TRANSPORT DOCKS BOARD

In your letter to Keith Joseph of 17 July you asked for agreement to a draft statement which you propose to make during Monday's Supply Day Debate.

I would have preferred the statement to be more like the one John Nott made last year about British Airways in which he stated clearly that the Government would no longer either control the airline or give it financial support. However, I can see that there are complications in making the latter point adequately and briefly, given the complication of borrowing for port investment from the National Loans Fund. Nevertheless, I would like to suggest a limited change to the penultimate sentence, intended to strengthen the point about control. The sentence might read

"Although the Government will initially retain a 51 per cent holding, it will not intervene in the commercial judgements or activities of the business and existing controls ..."

These are points about which we need to be very careful and I welcome your assurance that you will consult me about the more detailed statement which will be needed on Second Reading.

Turning to the points which you were asked to consider further by E(DL), I reluctantly conclude that we have to maintain 51 per cent of the shares in the short term. But I hope we can keep the period as short as possible and welcome Kleinwort's advice that the market embargo may not need to be as long as 5 years.

In your letter you also suggest that the original Government shareholding will be effectively diluted over time as the Company needs to raise further funds for expansion. In BTDB's circumstances, this may be rather a long time given its access to NLF money for investment. In view of this, I hope, as your letter implies, that you do not intend to seek power to subscribe for shares or to rights issues. Perhaps you would confirm this point.

I am copying this letter to the Prime Minister, Keith Joseph, other members of E(DL) and Sir Robert Armstrong.

Yours sincerely,

Stephen Locke (Private
Secretary)

pp NIGEL LAWSON

(Approved by the Financial
Secretary, and signed in his
absence)

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2 JUL 1961

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 3676

From the
Minister of State's Office

The Hon Adam Butler MP

Private Secretary
Minister of Transport
Department of Transport
2 Marsham Street,
London
SW1

21 July 1950

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217

Dear Private Secretary

BRITISH TRANSPORT DOCKS BOARD (BTDB)

Mr Butler has seen your Minister's letter of 12 July to Sir Keith Joseph and has asked me to make the following comments on it.

First, he believes it preferable if your Minister has determined upon the Government's holding a majority of the shares of the new company in the first instance, for the statement to be couched in terms of "a majority" rather than in terms of 51 per cent, a figure whose significance is largely based upon the voting power that it confers, and therefore attracts attention to the prospects of Government control over the company - prospects which are, as your Minister's draft statement makes clear, contrary to Government policy. Second, Mr Butler hopes that the statement will not be couched in terms of "retain", but rather in terms of "hold in the first instance". As your Minister's letter makes clear, there is the possibility of future sales, after a period to be determined later, and Mr Butler believes that it would be wrong to suggest that we are ruling this out. Mr Butler also very much hopes that it will prove possible to make clear that the Government contemplates making arrangements for shares to be issued to employees on favourable terms from the non-Government shareholding.

I am copying this letter to the Private Secretaries to the Prime Minister, to other members of E(DL) and to Sir Robert Armstrong.

Yours sincerely
L. A. Riley

Mrs E A Riley
Private Secretary

21 JUL 1980





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

REVIEW OF FORESTRY POLICY: PAPER FOR E COMMITTEE

As Forestry Ministers, Nicholas Edwards, Peter Walker and I have been considering, in the light of general Government policy, how to increase private sector participation in the forestry industry and in particular how to introduce private capital into the Forestry Commission's estates. We have made progress in this and the time is ripe to seek the assent of E Committee. There has already been discussion with Geoffrey Howe and he is content that we should proceed in this way.

This useful development in interesting private capital (particularly the Pension Funds) in afforestation depends on an amendment of the Forestry Act 1967 and authority for the necessary legislation in next Session's programme needs to be sought. We also see value in making a short statement to Parliament before the Recess: there has been press speculation and there is a general expectation of a policy announcement soon.

Accordingly I now seek, on behalf of the Forestry Ministers, the endorsement by E Committee of the attached paper which has been agreed at official level with Departments concerned, including the Treasury. The paper has been drafted in the form of a memorandum but given the wide area of agreement and since time is short, we hope it will be possible to obtain clearance by correspondence.

I am copying this letter and the attached paper to members of E Committee, Humphrey Atkins and to Sir Robert Armstrong.

ASW:ha
Approved by the Secretary of State
and signed in his absence

18 July 1980

SECRET

SECRET

18 JUL 1959

CONFIDENTIAL

De



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

17 July 1980

Dear Keith,

During the recent discussion in E(DL) there was general agreement to my proposals for the introduction of private capital into the British Transport Docks Board (BTDB). I was asked however to give further consideration to a number of points raised in discussion and to circulate the terms of my draft statement. As you know, I was asked at this morning's Cabinet to wind up at next Monday's Supply Day Debate. I therefore purpose to include this statement in my speech. This will provide an ideal opportunity and I would be open to very considerable criticism if I did not - indeed I do not see how I could avoid announcing it on that occasion. It comes a few days earlier than I had planned and I am sorry that it means asking for my colleagues' agreement to the draft statement attached by noon on Monday.

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I was asked to consider whether there might be room for a possible reduction in the proposed 51 per cent Government shareholding by making any sales of shares to employees from it. I have considered this carefully but I do not think that it would solve any problems. Any departure from the 51 per cent formula would prejudice the Board's support and the acquiescence of the unions over flotation.

But there are also practical objections. Although employees collectively might have the same interests at heart, they are not a homogenous group and there is no way in which one could guarantee that, having once become shareholders, they would not exercise their right to sell the shares on the open market. Apart from the technical difficulty therefore of mobilising the employee vote, if it still existed in the requisite numbers, there could be no guarantee that the original proportion of share holdings would remain static so far as they were concerned. The BTDB are quite clear that the unions would see such a proposal as a watering down of the Government's commitment to maintain a majority holding, and that this could prejudice the success of the whole operation. This has been confirmed by representations the NUR made recently to BTDB. I do not intend to mention this in my speech on Monday, but I thought colleagues would like to know the position here.

Although I am firmly of the belief that we must maintain 51 per cent of the shares in the short term, the Company will in due course need, no doubt, to raise further funds for expansion and since it is to be deprived of access to further

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Government funding this would probably require the further issue of shares. In time therefore the importance of the 51 per cent original Government shareholding will be effectively diluted (and the adoption of a continuing employee share scheme would have a similar effect). These seem far better ways to ensure the eventual demise of a majority Government holding than to try to confront union opposition before flotation.

I was asked to review the proposed commitment not to sell further Government shares for some time after the initial sale. The main reason for such a commitment is, as I have already made clear, to avoid depressing the price of the initial issue. I have again consulted Kleinworts about this and they have agreed that the forecasts of sale proceeds they have quoted would probably still hold good if we committed ourselves to making no sales for only three years. A shorter period would in their view have a serious effect on the price. They do however agree that this is a matter which should be left to be settled in the light of market conditions much nearer the time of the flotation.

I was also asked to discuss with the Financial Secretary the terms of the statements relating to the degree of Government disengagement from the commercial activities of the proposed companies. A suitable point to make such statements will be at the Second Reading of the Bill and I will consult the Financial Secretary in due course. For the purposes of the next statement I would propose to say no more than that the Government would not propose to intervene in any way in the day to day operations of the Company.

CONFIDENTIAL

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DTDB: DRAFT STATEMENT

I told the House in March that I had asked the Chairman of the British Transport Docks Board to explore possible ways of introducing private capital into the Board's undertaking in consultation with the trade unions and others concerned and to report back to me. The Chairman has now reported and I have consulted merchant bankers.

On the basis of the information and advice I have received I propose to proceed with the preparation of legislation to make the necessary changes in the Board's constitution to transform it into a company and give me the power to sell shares in it. My plans envisage that the Board's undertaking will be maintained as a single management unit, ie that there will be no break-up and disposal of individual ports. Although the Government will retain a 51% holding this will not involve any intervention in the running of the business and existing controls under the Transport Act 1962 will be removed. I intend to introduce my proposals to the House at the earliest opportunity.

CONFIDENTIAL

Edgar Peaf

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cc HMT	Energy
D/Ind	CST
MAFF	FST
DOE	CDL
Trade	PGO
	CO

10 DOWNING STREET

Press Office

From the Private Secretary

14 July 1980

Dear Anthony,

British Railway Board Subsidiaries

The Prime Minister has read your Minister's letter of 11 July and is content with the draft statement which he proposes to make. She has noted that Mr. Fowler will be discussing with the Leader of the House whether the statement should be made orally or in written form.

I am sending copies of this letter to Private Secretaries to members of E(DL), Robin Birch (Office of the Chancellor of the Duchy of Lancaster), Richard Prescott (Paymaster General's Office) and David Wright (Cabinet Office).

[Handwritten flourish]

Ti Lull.

Anthony Mayer, Esq.,
Department of Transport.

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Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard Columns 1054-1066
British Railways (Subsidiary Companies) 14 July 1980

Signed *A Wayland* Date 2 March 2010

PREM Records Team

AD

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB



via the highway

Ann Shute to

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

*This follows the
decision taken in
E(DL) earlier this week.*

Contract with the

11 July 1980

abandoned draft

statement?

*(The Chairman of the Board
is advising on whether
it should be over-
"17)*

Agreed and

Dear Secretary of State,

BRITISH RAILWAY BOARD SUBSIDIARIES

I wrote to you on 8 July attaching a draft statement on our policy about introducing private capital into BRB subsidiaries. Nigel Lawson and Adam Butler both sent me some comments on the draft.

In the light of these comments, I have agreed a revised draft statement with the Chairman, which I attach. You will see that the Treasury points have been substantially met. I have not included a reference to employee shareholding schemes, for two reasons. First, my aim is to keep the statement to the broad policy objective. Second, the opportunities for employee shareholdings will vary. Such a scheme would form an obvious part of the flotation of Sealink, but it is less easy to see at this stage exactly what might be involved in the case of a property development company or companies. I propose to say, in answer to questions, that the Government is keen to encourage employee shareholdings where appropriate, and that both the Board and the Minister will want to examine how they can be introduced into the subsidiary companies. I hope this will meet Adam Butler's points.

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|| E(DL) asked me to discuss with the Leader of the House whether the statement should be made orally or in written form. I am still in touch with him about this, but would, in any case, want to make the statement early next week.

I am copying this letter to the Prime Minister, other members of E(DL), Norman St John Stevas, Angus Maude and Sir Robert Armstrong.

Yours Sincerely

Anthony Mayer

NORMAN FOWLER

(Approved by the Minister
and signed in his absence)

CONFIDENTIAL

INTRODUCTION OF PRIVATE CAPITAL INTO BRB SUBSIDIARIES
PROPOSED STATEMENT TO PARLIAMENT

I told the House on 17 March that I intended to find ways to involve private risk capital in the major British Railways subsidiaries and that I would make a further statement in the light of a joint examination of the prospects with the Chairman. The Government and the Chairman have now completed a preliminary examination of the opportunities for involving private risk capital to a significant extent in financing these subsidiaries. The businesses involved are Sealink UK Ltd, British Transport Hotels, British Rail Hovercraft Ltd and property holdings. We believe that it will be to the advantage of British Rail, as a significant element in the economy, its workforce and the public using its services, to take advantage of these opportunities.

The Government and the Board recognise that these subsidiary enterprises will not secure essential commercial freedom unless private capital is attracted in sufficient volume and the private investors are assured of sufficient control through their shareholdings to ensure that the enterprises will be able to operate on equal terms with competitors in their respective markets. They are satisfied that the important existing trading relationships between British Railways and the subsidiary enterprises can be sustained by commercial contracts. These arrangements cannot but work to the advantage of British Railways and the subsidiary enterprises. They are also convinced that it is only by maximising the opportunities for profitable service to the public that the workforce at every level in these enterprises can look forward confidently to sharing in improving returns from this whole section of the economy.

I intend therefore to seek the approval of Parliament at the first opportunity for the changes necessary in British Railways present powers in order to secure the potential advantages to the fullest extent and from the earliest moment.

The Board will propose the steps which will be necessary to achieve the purpose as quickly as possible and will agree them with the Government. The Government will introduce the necessary legislation to ensure that any foreseeable obstacles are overcome.

080 JUL 1980



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Econ Pol.

Treasury Chambers, Parliament Street. SW1P 3AG

9 July 1980

The Rt Hon Norman Fowler MP
 Minister of Transport
 Department of Transport
 2 Marsham Street
 LONDON
 SW1

E(DL)(80)7: BRITISH RAILWAYS BOARD SUBSIDIARIES: PRIVATISATION

When we discussed the proposed Parliamentary Statement annexed to your paper on privatising the BR subsidiaries at E(DL) yesterday, I said I would let you have some drafting changes which seemed to me important. I recognise your difficulties with the Board in this and have therefore tried to keep them to the minimum necessary. However, if these changes are not negotiable with the Board, it must cast doubts on their commitment to our objective and the practicability of proceeding by way of agreement with them. I think other colleagues will want to look at the Statement with this in mind.

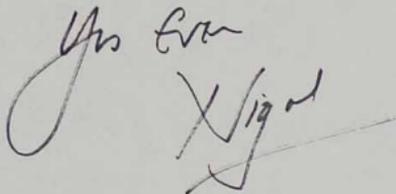
We also need to make a clear distinction between substance and presentation. Whatever we agree on the latter, it can only be on the understanding that the objective remains that set out in your letter of 14 February to Geoffrey Howe ie, to take the BR subsidiaries out of the public sector. In the light of these two points I have the following comments on the draft Statement.

First, I believe that the Statement should go as far as possible in associating the Board with the objectives and timetable of our enterprise. The amendment I suggest (attached) to paragraph 3 of the Statement is intended to have this effect.

Second, and this is an even more important point, we must avoid giving Parliament and others a misleading impression of our intentions. As presently drafted eg, the reference to operating "with elements of

both private and public capital", the statement could be interpreted as committing us to something well short of the fundamental change in the status of the subsidiary businesses which we intend. Your audience may not recognise the significance of the brief reference to assuring private investors of "sufficient control" in paragraph 4. I would therefore like the statement to have a stronger flavour of privatisation. I am also concerned that the statements in paragraph 1 about the financing of nationalised industries do not represent our policy. It is not our intention that nationalised industries (or even their subsidiaries) should be partly financed by private capital whilst the Government still stands behind them and bears the risk. Involving private capital on these terms will not subject their operations to the disciplines of the market place. Indeed, the recently agreed equity concession is tightly drawn to ensure that the private sector finance is genuinely at risk. The phrases in the draft statement about the "only source of capital fund ... should [not] continue to be the public purse" and "operating with elements of both private and public capital" will inevitably give rise to press speculation that we are contemplating some new form of "mixed enterprise" for the industries, much on the lines originally suggested by Sir Peter Parker and rejected by you. I would therefore like to see these phrases dropped.

The points I have made could be met by the amendments attached. The proposed change to paragraph 1, taken together with the signal in your original paragraph 4 should avoid misleading Parliament and press and give sufficient of an indication of our real intentions to enable you to clarify the position more fully in answering further questions. I hope you will be able to do this.



NIGEL LAWSON

Copies to: Prime Minister
 Sir Keith Joseph
 Other Members of E(DL)
 Mr Angus Maude
 Sir Robert Armstrong

Paragraph 1: redraft to read

"I told the House on 17 March that I intended to find ways to involve private risk capital in the major British Railways subsidiaries and that I would make a further statement in the light of a joint examination of the prospects with the Chairman. The Government and the Chairman have now completed a preliminary examination of the opportunities for involving private risk capital to a significant extent in financing these subsidiaries. The businesses involved are Sealink UK Ltd, British Transport Hotels, British Rail Hovercraft Ltd and Property Holdings. We believe that it will be to the advantage of British Rail, as a significant element in the economy, its workforce and the public using its services to take advantage of these opportunities."

Paragraph 3: amend the opening phrase to read

"The Board will agree with the Government the steps necessary to achieve the purpose as quickly as possible. The Government will introduce"



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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
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SWITCHBOARD 01-212 7676

From the
Minister of State's Office

The Hon Adam Butler MP

Private Secretary to
The Rt Hon Norman Fowler MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1

9 July 1980

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Dear Private Secretary

BRITISH RAILWAYS BOARD: SUBSIDIARIES

My Minister has seen a copy of your Minister's letter of 8 July attaching the terms of a statement which he proposes to make tomorrow.

As I have already advised you, Mr Butler has asked if the following sentence could be added at the end of the statement:

"To this end it is also intended that, where appropriate, schemes should be introduced to allow employees the opportunity of acquiring shares in the company for which they work on preferential terms."

I am copying this letter to the private secretaries to the Prime Minister, members of E(DL), the Paymaster General and Sir Robert Armstrong.

Your sincerely
E A Riley

Mrs E A Riley
Private Secretary

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- 9 JUN 1980

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB



The Rt Hon Sir Keith Joseph BT MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

*wmt for
Maude / Anthony
Committee*

(in ECU) notes

4 pps

R.
8 July 1980

Joos Keith.

BRITISH RAILWAYS BOARD SUBSIDIARIES

When E(DL) approved this afternoon the proposals in my paper (E(DL)(80)7) for privatising the Railway Board's subsidiaries, they also endorsed the lines of the statement annexed which sets out the commitment that I have secured from Sir Peter Parker and the Railways Board. The sub-committee asked for a little more time in which members could suggest drafting points.

not yet received.

I would like to make the statement on this by written answer on Thursday to avoid speculation in the weekend press, which the unions might use to create new difficulties. It would be very helpful if colleagues would give me any drafting points by 5.00 p.m. on Wednesday.

I am copying this letter to the Prime Minister, other members of E(DL), Angus Maude and Sir Robert Armstrong.

Joos ever.
Norman Fowler

NORMAN FOWLER

CONFIDENTIAL

CONFIDENTIAL

INTRODUCTION OF PRIVATE CAPITAL INTO BRB SUBSIDIARIES

PROPOSED STATEMENT TO PARLIAMENT

HM Government and the Chairman and Board of British Railways are agreed that in the prevailing economic and financial circumstances of the UK it is not to the advantage of British Railways as a significant element in the economy, to the workforce of British Railways or to the public using the services of British Railways, that the only source of capital funds for its subsidiary enterprises should continue to be the public purse. They have made a preliminary examination of the opportunities which can be created in the immediate future for these subsidiary enterprises to be operated with elements of both private and public capital. The businesses involved are Sealink UK Ltd., British Transport Hotels, British Rail Hovercraft Ltd and property holdings.

I intend therefore to seek the approval of Parliament at the first opportunity for the changes necessary in British Railways present powers in order to secure the potential advantages to the fullest extent and from the earliest moment.

The Board will propose and seek to agree with the Government the steps which will be necessary for the purpose, which will be achieved as quickly as possible. The Government will introduce the necessary legislation to ensure that any foreseeable obstacles are overcome.

The Government and the Board recognise that these subsidiary enterprises will not secure essential commercial freedom unless private capital is attracted in sufficient volume and the private investors are assured of sufficient control through their shareholdings to ensure that the enterprises will be able to operate on equal terms with competitors in their respective markets. They are satisfied that the important existing trading relationships between British Railways and the subsidiary enterprises can be sustained by commercial contracts. These arrangements cannot but work to the advantage of British Railways and the subsidiary enterprises. They are also convinced that it is only by maximising the opportunities for profitable service to the public that the workforce at every level in these enterprises can look forward confidently to sharing in improving returns from this whole section of the economy.

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8 JUL 80

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WYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

8 July 1980

De Nigel

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NEW TOWNS: DISPOSAL OF ASSETS

Further to my letter of 23 June to John Biffen to which you replied on 1 July, I met Lord Raglan, the Chairman of Cwmbran Development Corporation, on 2 July.

I told Lord Raglan that I considered that the report of the Corporation's property consultants (Hillier Parker) was unduly pessimistic about the prospects of a fairly early sale, on reasonable terms, of a substantial tranche of commercial or industrial property in Cwmbran. This view was also taken by David Young, who was present at the meeting.

Lord Raglan readily agreed to look at the matter again and if necessary take a second opinion on the saleability of property at Cwmbran. As a first step David Young has made arrangements to visit Cwmbran on 14 July to make an assessment of the prospects, and he will afterwards report back to me. I will let you know of further developments.

I am sending copies of this letter to the Prime Minister, members of E(DL) and Sir Robert Armstrong.

John

Nigel

Nigel Lawson Esq MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Y.S.

- 5 JUL 1980



12



Econ 151

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
LONDON
SW1

July 1980

John Nick

B

NEW TOWNS: SPECIAL DISPOSAL OF ASSETS

Thank you for your letter of 23 June to John Biffen about the position of Cwmbran.

I am grateful to you for setting out the latest position and note that you will be writing again when you have discussed the matter with the Chairman of the Corporation. In the circumstances it would be premature for me to comment, but I feel it would be helpful if your further letter could state the timespan the consultants envisage for postponement and give an indication of the receipts that would be obtained by selling now rather than waiting for a more favourable climate.

I am sending copies of this letter to the Prime Minister, members of E(DL) and Sir Robert Armstrong.

John Nick
Nigel

NIGEL LAWSON

11 JUL 1960





CONFIDENTIAL

From 80. 2
Amithurish
To note ECEA's
conclusions.

THE PRIME MINISTER

mt. P.
26/6

PUBLIC PARTICIPATION IN BRITISH GAS

At E(DL) Sub-Committee on Tuesday we discussed possible means of obtaining a contribution from the British Gas Corporation (BGC) towards the target for public sector disposals in 1980-81. You will recall that the Chancellor announced a commitment to a target of £500 million of disposals at 1979 Survey Prices, which would be equivalent to £630 million at current prices. We had identified at earlier meetings major disposals from New Towns, NEB shareholdings, and Motorway Service Areas, together with a few minor items, which contributed about £400 million. In addition the sale of 7th Round North Sea licences is expected to produce about £100 million. Thus there remains a shortfall of about £130 million. Treasury Ministers argued that the only fairly reliable prospect to fill that gap was disposals of BGC interests in oil.

The Secretary of State for Energy, in his paper E(DL)(80)6, discussed possible options, ranging from the complete sale of BGC's interest in the Wytech Farm onshore oil field, to grouping all their oil interests in a separate company, and then selling a majority of the shares to the public, and

CONFIDENTIAL 2/placing.....



CONFIDENTIAL

- 2 -

placing the whole company outside the public sector. He argued that BGC were strongly attached to the Wytch Farm field, and that if he attempted to direct a sale, this would arouse their outright opposition and might delay the sale beyond the end of the financial year. It could also prejudice their co-operation in other policy areas, which could have very large implications for public expenditure. His preference was therefore to sell shares in a new company bringing together all BGC's oil interests. It was possible that this would not arouse their outright opposition, and it could yield around £200 million rather than the £90 million-£130 million in prospect from the sale of Wytch Farm alone. But he had to acknowledge that it was a more complicated route, and so it was not possible to give any assurance that the sale could be made in 1980-81 and so contribute to the disposals target.

The Sub-Committee sympathised with the Secretary of State in his wish to retain a co-operative attitude on the part of BGC. There was also some attraction in the creation of a substantial new independent oil company, because this would add to competition, and in time the sale of shares in it would yield more than the sale of Wytch Farm alone. Nevertheless, in view of the firm commitment to a disposal target for 1980-81, and the absence of other potential candidates to

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3/make.....



CONFIDENTIAL

- 3 -

make up the shortfall, the Sub-Committee concluded that the Secretary of State for Energy should give strong precedence to achieving the necessary financial saving during the course of the year. It was agreed that he should discuss the option of a new oil company with BGC, but should do so with the aim of producing early income, and that he should make clear to BGC that failing this he would pursue the course of a forced disposal of Wytch Farm by issuing a Directive to the Corporation.

The Secretary of State for Energy agreed to report back to the Sub-Committee on his discussions with BGC before the end of July, and I undertook that I would report the Sub-Committee's conclusion to you.

I am sending copies of this minute to members of E, E(DL) and to Sir Robert Armstrong.

KJ

K J
26 June 1980

26 JUN 1962
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Elon P81

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

23 June 1980

De Jhu

R

mm

NEW TOWNS: DISPOSAL OF ASSETS

In your letter of 18 April to David Howell, about the disposal programme for 1980/81, you said that you would like an up to date assessment of the position on (among other items) the new towns' disposals.

My Department requested Cwmbran Development Corporation, last December, to put £1.6m worth of assets on the market. However, the Development Corporation has now received a report from its consultants Hillier Parker May and Rowden. The consultants take the view that the current economic climate in South Wales is inopportune for the disposal of any assets. They have suggested that the matter should be kept under continuous review and that they should advise the Corporation when it appears that conditions are more favourable.

The Corporation has considered the consultants' advice and is disposed to follow it. My Department is now reviewing the position, in consultation with the Development Corporation, and I intend to ask the Chairman to see me for a discussion about the matter very shortly. I will let you know the outcome.

/I am sending

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
SW1P 3AG

24 JUN 1980



I am sending copies of this letter to the Prime Minister, members of E(DL), the Chancellor of the Duchy of Lancaster, Lord Ferrers, Lord Trefgarne, Lord Cullen and Sir Robert Armstrong.

James Callaghan

Neil
—

cc AD Reginald

COMMERCIAL IN CONFIDENCE

Econ RA



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

17 May 1980

Dear John

R
19/5

DISPOSAL PROGRAMME 1980/81: MOTORWAY SERVICE AREAS

You wrote to David Howell on 18 April with copies to members of E(DL), about the next steps on this. Since then, E(DL) has met to discuss Nigel Lawson's paper of 7 May (E(DL)(80)5).

As you know, it was agreed that my response to the specific request in your letter for a progress report on MSAs should be held over until my professional advisers, Messrs Richard Ellis, had reported their opinion of the likely disposal proceeds.

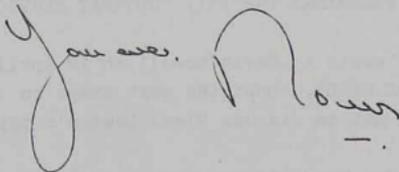
Richard Ellis have now put in an encouraging preliminary report. This indicates that the total proceeds from disposing of the MSAs should be comfortably more than the £40 million quoted in Nigel Lawson's paper. Treasury officials are being provided with the relevant details. I should emphasise that these are only preliminary indications: it is only this week that Richard Ellis and the operators are in a position to start serious

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

bargaining, armed with figures (up to now the talking has merely been on general principles). For the same reason the position on timing is still fairly speculative, but first indications are that a substantial proportion of the receipts should fall in this year.

I am copying this letter to the Prime Minister, members of E(DL) and the other recipients of your letter.

A handwritten signature in black ink, appearing to read "Norman Fowler". The signature is written in a cursive style with a large initial "N" and a long horizontal stroke extending to the right.

NORMAN FOWLER

119 MAY 1960



COMMERCIAL IN CONFIDENCE



Top Copy filed.
Aerospace: Brit Actio: Shows for
Employees.

cc A. Douglas
Econ Pol.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

18 April 1980

DISPOSAL PROGRAMME 1980/81

In Geoffrey Howe's absence abroad, I am writing about the next steps on this matter.

As you know from Adam Butler's letter of 8 April to Nigel Lawson our plans for an early flotation of BAe have run into trouble and postponement of a sale from the June window is now unavoidable. I agree with Adam Butler that this does not require any public announcement but it considerably increases the need to take urgent steps to identify sufficient other candidates for disposal in 1980/81 to ensure that we meet the £ $\frac{1}{2}$ billion target in last month's White Paper: a target which in cash terms is £630 million and which experience this year suggests that we should plan to over-achieve.

I understand that Keith Joseph should be able to let us have an assessment of his revised proposals for disposing of BAe in early May. I hope that this will cover both the revised timetable (and whether it is still realistic to envisage a satisfactory flotation in 1980/81) and also what options are available to the Government for changes in BAe's business which might increase the likely proceeds from an eventual flotation. It is particularly important that we should establish soon whether we can still expect a contribution of £100 million from this source or must look elsewhere.

Whatever his answer, we ought clearly to have an early discussion in E(DL) to reach decisions on additional candidates for disposal, since the current programme, including the BAe contribution, falls well short of the target. I hope that you will therefore be able to let us have by the end of the month the proposals which you promised the Prime Minister in your minute of 20 March, covering National Coal Board subsidiaries,

the Radio Chemical Centre and BGC, in particular the disposal of Wytch Farm. Incidentally, it is my understanding that the Attorney's view is that though there is some risk of challenge, we would be justified in using existing legal powers to compel BGC to sell Wytch Farm after you have carried out the statutory consultations with the Corporation. I hope you will also cover the suggestion in Nigel Lawson's letter to John Moore of 9 April that the NCB should reduce its holding in Staveley Chemicals.

It would also be helpful to have an up to date assessment of the position on the other firm candidates - on new towns from Michael Heseltine, George Younger and Nicholas Edwards and on NEB and MSAs from Keith Joseph and Norman Fowler - together with any new suggestions.

I am sending copies of this letter to the Prime Minister, members of E(DL), the Chancellor of the Duchy of Lancaster, Lord Ferrers, Lord Trefgarne and Lord Cullen, and Sir Robert Armstrong.

Tom

John Biffen

JOHN BIFFEN



JFH

cc HMT
D/I
MAFF
DOE
D/T
CH SEC
FIN SEC
D/TRANS CO

Econ Pol

10 DOWNING STREET

From the Private Secretary

21 March 1980

Disposals Programme in 1980/81

The Prime Minister has read your Secretary of State's minute on the above subject, and has commented that it is very negative.

I am sending copies of this letter to the Private Secretaries to members of E(DL), the Minister of Transport and David Wright (Cabinet Office).

TL

W.J. Burroughs, Esq.,
Department of Energy.

CONFIDENTIAL

212

Prime Minister to
 Pretty negative. (This will
 all go to E and E(DL))

PL

2073

PRIME MINISTER

*Very negative -
 it is not clear they
 can't do what they
 do. I will check they
 don't*

DISPOSALS PROGRAMME IN 1980/81

In his minute to you of 12 March Geoffrey Howe raises the question of a significant contribution from the energy field. I shall of course do all I can to be helpful and will proceed as you ask in your Private Secretary's letter of 18 March to mine. This note therefore comments only very briefly on Geoffrey's particular suggestions.

ENOC

The biggest contribution from the energy side will come in due course from the privatisation of ENOC. Since we cannot legislate until next session nothing will be possible for 1980-81 but we should not I think be debarred from taking account of the prospects by the precise confines of a financial year.

SEVENTH ROUND LICENCES

My paper to E Committee will set this out in full. But briefly, my view is that to go for auctioning, particularly in addition to other measures which may be taken, would be highly damaging to the prospects of the Round and all North Sea exploration and development which we are just starting to get on its feet again after changing policies of the last Government. It would also work against the interests of British and smaller firms. Furthermore, it is most unlikely that revenue from an auction could be produced in 1980/81. What I do see as a possibility, however, is a limited system of "cash bonuses" which might provide £80-100M.

WYTCR FARM

I think this can only be considered sensibly in the context of the future of BGC as a whole and the report of Norman Lamont's group which is expected within the next two weeks. Other considerations are that it would need legislation, would be strongly opposed by BGC and we could not be sure when receipts would come in.

NCB

Their subsidiaries are a rag bag, many of which are unsaleable or saleable for insignificant amounts. Our first priority must be to concentrate on the return to viability of the NCB as a whole. This is where the big money lies and I am sure we would not wish to do anything which would stand in the way of this objective. I will however pursue with Sir Derek Ezra the question of NCB subsidiaries once we have got the Coal Bill through its Second Reading.

It doesn't
follow!
T2

TRC (Radiochemical Centre)

For technical reasons this is much more an outside than an inside possibility but I will of course cover this in detail in my paper to E(DL).

I am copying this note to all E(DL) members, the Minister of Transport and to Sir Robert Armstrong.

Jk.

SECRETARY OF STATE FOR ENERGY

20 March 1980

20 2001





✓ Original
Econ Pol.

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

The Rt Hon Sir Keith Joseph MP
 Secretary of State for Industry
 Department of Industry
 1 Victoria Street
 London SW1

20 March 1980

R2073

Leo Keir

GOVERNMENT INDUSTRIAL ESTABLISHMENTS

Thank you for your letter of ~~17~~ February. In it you asked whether we should examine how far arrangements could be made for various Government industrial establishments to be transferred to the private sector, or be made more responsive to commercial pressures by requiring them to fund an increasing portion of their work under contract from the private sector.

I understand that you are now initiating a more wide-ranging review of the scope for privatisation, and will be considering the Government industrial establishments in that context. I fully support your initiative on this, and consider it important that we should maintain our momentum on this issue. I was also glad to learn of your approach to the research establishments for which DOI is responsible. We will, however, need to be clear exactly what we mean by 'privatisation', as it could cover a number of different possibilities.

Before hearing of your new initiative, my officials had a preliminary look at the scope for privatisation of the main Government industrial establishments, and it has become clear that in some cases at least privatisation could result in an addition to public expenditure. We should clearly have to pay careful attention to this aspect.

In undertaking this exercise, you will no doubt wish to avoid overlapping with the work already being undertaken by CPRS for MISC 14 on the scope for contracting out public sector functions to the private sector and the continuing work on

/Sir Leo

CONFIDENTIAL



Sir Leo Pliatzky's review of quangos. Your remit will inevitably be a very wide-ranging one, and when you have had an opportunity to ascertain the amount of work which will be required you may consider that it would be worthwhile to set up a Cabinet Office official committee to undertake the work.

I am sending copies of this letter to recipients of yours.

GEOFFREY HOWE

2 —
Geo Howe

20 MAR 1960



CONFIDENTIAL



Evans

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cc HMT D/TRANS
D/IND CO
MAFF
DOE
DOT
CSO
FSO

10 DOWNING STREET

From the Private Secretary

18 March 1980

The Prime Minister has read the minute of 12 March from the Chancellor of the Exchequer about the disposals programme in 1980-81. She entirely agrees with the importance to be attached to meeting the target, and would be grateful therefore if Mr. Howell would include the question of auctioning the 7th Round in the paper already commissioned by E on the size of the Round and if he could also put early proposals before E(DL) covering the Radiochemical Centre, National Coal Board subsidiaries, and the Wytch Farm oilfield. She has asked to be kept in touch with progress, and hopes that all other Ministers will press ahead vigorously with their contributions to the disposals target.

I am copying this to the Private Secretaries to all E(DL) members, the Minister of Transport, and to Sir Robert Armstrong.

J. P. LANKESTER

Bill Burroughs, Esq.,
Department of Energy.

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ds

Ref: A01695

CONFIDENTIAL

MR. LANKESTER

Prime Minister 1
Cabinet Office suggest
we write as per
attached draft.
Content? R

Flag A

The Chancellor of the Exchequer wrote to the Prime Minister on 12th March about the disposals programme in 1980-81. The purpose of the letter is, we understand, only partly informative: several colleagues seem to have been dragging their feet on these disposals, and the Chancellor would like the Prime Minister's support in encouraging them to act. You might wish to consider writing to the Private Secretaries to members of E(DL). I attach a draft.

17/3

(D.J. Wright)

14th March 1980

CONFIDENTIAL

CONFIDENTIAL

DRAFT LETTER FROM THE PRIVATE SECRETARY TO THE
PRIME MINISTER TO THE PRIVATE SECRETARY TO THE
SECRETARY OF STATE FOR ENERGY

The Prime Minister has read the minute of 12th March from the Chancellor of the Exchequer about the disposals programme in 1980-81. She entirely agrees with the importance to be attached to meeting the target, and would be grateful therefore if Mr. Howell would include the question of auctioning the 7th Round in the paper already commissioned by E on the size of the Round and if he could also put early proposals before E(DL) covering the Radiochemical Centre, National Coal Board subsidiaries, and the Wytch Farm oilfield. She has asked to be kept in touch with progress, and hopes that all other Ministers will press ahead vigorously with their contributions to the disposals target.

I am copying this to the Private Secretaries to all E(DL) members, the Minister of Transport, and to Sir Robert Armstrong.

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Prime Minister's Economic Secretary

I suggest we see how Sir Keith and Mr Howell react to this. If they are uncooperative, you may

Treasury Chambers, Parliament Street, SW1P 3AG have to hold
01-233 3000

1 a smack meeting.

BF
PL
2/13

and
PL
2/13

PRIME MINISTER

DISPOSALS PROGRAMME IN 1980-81

You asked for a report on progress towards achieving the £½ bn target in the forthcoming White Paper for public sector asset disposal in 1980-81 and on what steps remain to be taken to achieve it.

... 2. The present position for 1980-81 is set out in the attached table. The items in part (i) are reasonably firm, although there is still some uncertainty about the precise figures in individual cases. The items in part (ii) represent the remaining possibilities we have identified as capable of yielding benefits in 1980-81. (They do not include therefore receipts from the sales of the National Freight Corporation or British Airways where, although we expect to obtain the enabling legislation during 1980-81, the current profit position will inhibit a sale before 1981-82 at the earliest).

3. The gap which remains to be filled next year is some £70-100 million (or £110-140 million if we seek additional disposals to make good the net increase in the PSBR of unwinding £40 million of the 1979-80 forward oil sales where

/there is



there is no contractual provision for roll-over). Experience this year suggests we should plan for figures at the top of the range to allow for slippage.

4. Among the items in part (ii), I am concerned about the lack of progress over Cable and Wireless. We had thought of a two-stage flotation of shares, initially in Hong Kong where their main operation is based, and later on our own Stock Exchange. A Hong Kong issue (unlike the other) would not require legislation and thus affords the only prospect of a C&W contribution in 1980-81. But the present C&W Court is opposed to that route, on grounds of possible impact on their other concessions. Those fears are held by some to be exaggerated; it is not at all clear that setting up, and selling shares in, a Hong Kong subsidiary would lead to demands for local participation in, or outright nationalisation of, profitable operations elsewhere. The essential first step in breaking the deadlock is to appoint a suitable new Chairman, in place of Lord Glenamara (formally Ted Short, MP), now overdue for replacement. The search has been on for many months, and time is fast running out on our hopes for 1980-81.

5. We must look therefore for a significant contribution in the energy field if we are to have any chance of meeting the target. There are a number of possibilities. One, not mentioned in the table but currently under discussion, is the possibility of auctioning Seventh Round North Sea oil licences (on which I am in touch separately with David Howell). A second is the sale of some of the National Coal

There is a letter in file 2 on this
PL

/Board's



Board's subsidiaries. The table shows receipts of some £10-20 million from the sale of a particular subsidiary, ie Sankey, but I see from the Board's Annual Report that they have a large number of subsidiaries in fields as wide-ranging as solid fuel distribution, engineering manufacturing, brick manufacturing and builders merchanting. Their links with the Board's main business are unclear and this could well be an area in which more substantial receipts could be secured, if the Board were pressed hard.

6. The final candidate, and the one most likely to secure a significant and certain contribution in 1980-81, is sale of the British Gas Corporation's 50 per cent interest in the Wyth Farm oil field. Given the size of the remaining gap, I think we have to go for this. The case for sale is strong. BP who own the other 50 per cent are likely to be interested in buying out the Corporation. The operation has no direct relevance to BGC's main business of gas production and distribution: the field produces no gas. I recognise that there are difficulties and that resistance from BGC itself may be expected. But none of the problems appear decisive. For example, uncertainty about the value of the assets (because the size of the recently discovered oil reservoir below the existing reservoir has not been determined) could be overcome by a sale contract which provided for the payment of a substantial sum on account, to reflect proven reserves, with balancing payments to be made later when the full facts are known. If David does

/not think

CONFIDENTIAL



not think his present powers are adequate, the Petroleum and Submarine Pipelines (Amendment) Bill would offer an early chance to remedy this.

7. As elsewhere on public expenditure, I attach importance to meeting this target. It is also important in the context of our more general privatisation policy. But if we are not to fall short of the target, early decisions are needed so that action can be set in hand. I would therefore want to press Keith to bring the search for a new C&W Chairman to a speedy conclusion, at the same time asking David to set in hand the sale of the Wytch Farm oil field, and buttressing this by the sale of some National Coal Board subsidiaries.

8. I am copying this letter to Keith Joseph, David Howell, and Sir Robert Armstrong.

Conf

(G.H.)

12 March 1980

CONFIDENTIAL

1980/81 DISPOSALS

£m at 1979/80 O.T.P.

(i) FAIRLY FIRM

New Towns (E & W)	140 - 170*
(Scotland)	2
British Aerospace (about 50%)	100
NEB Shareholdings - at least	70
Motorway Service Areas	40 - 50
British Sugar Corporation	20
Market Towers	15
PSA	4
	<hr/>
	391 - 431
	<hr/>

(ii) OTHER POSSIBILITIES

Cable and Wireless	65
Radiochemical Centre	20
NCB Subsidiaries (Sankey)	10 - 20
BCG (interest in Wytech Farm oilfield)	100

*£170m assumes a £30m carry over from the 1979/80 disposals target



12 MAR 1980



NOTE FOR THE RECORD

Mr. Mawer etc.

Broadcasting legislation July 79.

Evan RA.

At the Prime Minister's meeting with the Chancellor this morning, apart from Budget matters, they discussed the question of disposals. The note which the Chancellor sent over (under cover of Martin Hall's letter of 4 March) showed that he was looking for a further £500 million of disposals in 1980/81. About £400 million was fairly firm. The main possibilities for making up the balance were the sale of BGC's interest in the Wytch Farm oil field and the sale of Cable and Wireless. The Secretary of State for Energy was proving difficult on the former, and he (the Chancellor) hoped he could have the Prime Minister's support in putting pressure on Mr. Howell. The Prime Minister agreed that the sale of Wytch Farm ought to be pursued vigorously. There was no particular reason why BGC should operate an oil field, and it would produce valuable revenue. It would also be worth asking the Secretary of State for Industry to bring forward firm proposals for the sale of Cable and Wireless.

The Prime Minister suggested that the Chancellor should look at the possibility of disposing of some of NCB's non-coal assets. The Chancellor said he would do so. The Prime Minister also questioned why the note referred to above did not include anything about a possible sale of the National Freight Corporation. (After the meeting the Treasury telephoned to say that, if it proved possible to sell the NFC or part of it, this would be unlikely to raise any net revenue - largely because of the NFC's pension liabilities.)

Finally, the Prime Minister asked the Chancellor whether he was considering changing the levy arrangements on commercial television. The Chancellor replied that the Treasury and the Home Office were considering the possibility of moving over to a levy based on turnover with a view possibly to amending the Broadcasting Bill. The Prime Minister added that, in her view, there would be merit in postponing the fourth TV channel: in the early years, until advertising revenue was built up, its operation would tend to reduce the overall profits of independent

/television

television and therefore - on the present levy arrangements - it would reduce the Government's take. The Chancellor said that he would have no objection, but he understood that the Prime Minister had already given the Home Secretary the go ahead.

2.

6 March 1980

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5. 3. 80.

PRIME MINISTER

MEETING WITH THE CHANCELLOR
THURSDAY 6 MARCH 1980

The Chancellor would like to cover the following at the meeting tomorrow:

- (i) The indirect tax package in the budget. He told you last

(ii) The disposals programme in 1980/81. Papers on this are at Flag A. The short point is that the Chancellor is looking for £500 million, and he has identified about £400 million which is fairly firm. The other main possibilities lie with Mr. Howell's responsibilities, but he so far has been unco-operative. The best option here would be for BGC to sell off its interest in the Wytech farm oilfield - this would raise £100 million. BGC will resist because the field has been developed almost entirely through their own efforts, and because it would be hard to get an accurate evaluation - the size of the recently discovered oil reservoir below the existing reservoir has not been determined yet. You will of course want to support the Chancellor in general terms, but I wonder whether it would be right to support him on any particular scheme of disposals in the energy field without hearing Mr. Howell's case.

The Chancellor will also probably bring you up-to-date on where he has got to on the medium-term financial strategy. The paper which you saw last week has been revised to take on board some of the Governor's worries; the Chancellor is awaiting his further comments before putting it back to you.

TL



Ecm BP

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173

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP
Minister of Transport
Department of Transport
2 Marsham Street
London SW1P 3EB

5 March 1980

Dear Norman.

In your letter to me of 3 March you propose that you should make a short statement tomorrow to the effect that the Government were considering involving private capital in the British Transport Docks Board and that the Chairman would be considering how this might be done.

I fully take your point about the undesirability of a leak in advance of discussions with the unions, and have no objection to your proceeding as proposed.

I am sending a copy of this letter to the Prime Minister, Members of E(DL) Committee, the Secretary of State for Employment and Sir Robert Armstrong.

JOHN BIFFEN

15 MAR 1960

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2 3 4
5 6 7
8 9

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

4th March 1980

Dear Jim,

*12
43*

DISPOSALS PROGRAMME IN 1980-81

The Prime Minister will have seen recent exchanges of correspondence on the question of disposals in 1980-81. I enclose the Chancellor's letter of 28 January to appropriate Ministers, and the reply from the Secretary of State for Energy. Also enclosed for completeness are letters from other Ministers, though I doubt if you will wish to trouble the Prime Minister with them.

The Chancellor would very much like to discuss the question of disposals with the Prime Minister on the basis of the attached aide memoire. If this is convenient, you may like to put this on the agenda for their meeting on Thursday 6th March.

Yours,

MA

M.A. HALL
Private Secretary

T. Lankester Esq.,
No. 10 Downing Street,
LONDON,
SW1

CONFIDENTIAL

DISPOSALS IN 1980/81

The forthcoming White Paper sets a target for disposals of public sector assets which would reduce the public sector borrowing requirement in 1980/81 at £½ billion. Progress towards meeting this target was reviewed in E(DL) on 19 December when it was noted that Ministers would need to bring forward urgently further proposals to make good the gap between reasonably firm plans and the published target.

2. The current state of play is set out in the table attached. The items in part (i) of the table are reasonably firm, although there is still some uncertainty about the precise figures, eg, in the case of British Aerospace, motorway service areas, the NEB and British Sugar Corporation shares. The remaining gap is therefore some £70-100 million: this assumes no certain benefit in 1980/81 from the sale of shares in Cable and Wireless and no contribution from asset disposals by the British Steel Corporation where proceeds are likely to be needed to offset trading losses. Similarly, uncertainty over the timing of legislation suggests that no credit should be taken for receipts from a sale of BNOG in 1980/81. The remaining possibilities so far considered - disposal of the Radiochemical Centre, of NCB's shares in Sankey or BGC's interest in the Wytch Farm oil field are set out in part (ii) of the table. Other possibilities mentioned have ^{been} some form of "mixed finance" for BGC and auctioning seventh round North Sea oil licenses.

3. All the last possibilities lie in the field of the Secretary of State for Energy and a significant contribution from him looks essential. Experience this year suggests that it would be prudent to plan for a figure of more than £100m to allow for slippage. The only candidate likely to secure a sufficient and certain contribution in 1980/81 is BGC's interest in the Wytch Farm oilfield. There are difficulties in this course set out in the Annex attached, but they do not appear to be decisive and Mr Howell should be pressed to make firm plans.

1980/81 DISPOSALS

£m at 1979/80 OIP

(i) FAIRLY FIRM

New Towns (E & W)	140 - 170*
(Scotland)	2
British Aerospace (about 50%)	100
NEB Shareholdings - at least	70
Motorway Service Areas	40 - 50
British Sugar Corporation	20
Market Towers	15
PSA	4
	<hr/>
	391 - 431
	<hr/>

(ii) OTHER POSSIBILITIES

Cable and Wireless	65
Radiochemical Centre	20
NCB Subsidiaries (Sankey)	10 - 20
BCG (interest in Wytch Farm oilfield)	100

*£170m assumes a £30m carry over from the 1979/80 disposals target

Wytch Farm

BGC own 50 per cent of the onshore Wytch Farm oil field. BP own the other 50 per cent and are likely to be interested in buying out the Corporation (and might have a contractual right of first refusal). A very rough valuation of BGC's 50 per cent share in the field is \$100m.

The case for the sale, besides the useful PSBR savings, is that its operation has no direct relevance to BGC's main business of gas production and distribution; the field produces no gas.

BGC will strongly resist the sale arguing:

i) The field has been successfully developed as a result of their entrepreneurial efforts and geological expertise (in the face of what has turned out to be wrong technical advice from BP). Its sale would reduce the Corporation's resources engaged on hydrocarbon exploration and development and would thereby reduce their potential for further exploration in the North Sea.

BUT

BGC may, as a condition of the sale to BP, be able to obtain a management contract, at least for a few years, so as to enable them to redeploy the exploration etc staff now employed at Wytch Farm to explorations in the North Sea.

ii) The size of the recently discovered oil reservoir below the existing reservoir has not been determined. The field could therefore not be valued accurately and the public sector would lose out in any sale.

BUT

The sale contract could provide for the payment of a substantial sum on account (to reflect proven reserves of oil in the field) with balancing payments to be made

later when the full facts are known. This cannot be the first occasion in the oil industry when a field has been sold before its full potential has been known.

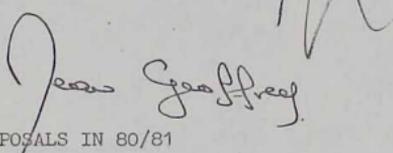
Section 7(2) of the Gas Act 1972 includes a specific power for the Secretary of State to direct the Corporation to dispose of assets. The Attorney General advised (orally on 11 June) that the risk involved in using the powers in the Act to direct the Corporation to sell Wytch Farm was justifiable though he could not guarantee that there would not be trouble. It was therefore up to the Secretary of State to take the decision on the use of the powers after proper consultations with the industry. (The Attorney General did not think the risk justifiable in using the powers to direct the Corporation to sell offshore assets.) If it were thought that the risks of using the powers for the sale of Wytch Farm were too great, legislation could be introduced next Session (eg in the Petroleum and Submarine Pipelines (Amendment) Bill, provided that it was to be enacted by 31 March 1981) to give the necessary powers.


 DEPARTMENT OF TRANSPORT
 2 MARSHAM STREET LONDON SW1P 3EB

 11 C
 18 February 1980

 The Rt Hon Sir Geoffrey Howe MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 LONDON SW1P 3AG

CH/EXCHEQUER	
REC.	18 FEB 1980
ACTION	EST TO DEAL
COMES TO	


 DISPOSALS IN 80/81

Thank you for sending me a copy of your letter of 28 January to Keith Joseph.

I am conscious of my undertaking to put to E(DL) my proposals for the disposal of motorway service areas. I intended to do this as soon as I could forecast the timing and expected benefit of disposal with some certainty. We have not reached that position yet. We met with some unexpected difficulties in our early negotiations with the operators which delayed progress.

Nevertheless, we have now made considerable headway. You will recall that my declared intention is to dispose of the major part of the Government's capital investment in the 38 motorway service areas (MSAs) in England. Disposal is to be on the basis of new long leases, with nominal ground rents and only those covenants which are essential to ensure that MSAs continue to fulfil their primary functions as safe stopping places for travellers.

I have explored the likely market for these businesses with leading firms of Chartered Surveyors. Their advice is that the existing MSA operators are the prime marketing

target. Interest among institutional investors is not likely to be high but there could be considerable interest among oil companies who would see it as an opportunity to obtain major solus outlets.

I have decided that my Department, even with the backing of the Chief Valuer's Office, is not competent to carry out a marketing operation of this magnitude without outside professional help and I have appointed Richard Ellis, who have the expertise and the capacity to undertake the work, to act as the Department's agents. They expect to be in a position to negotiate with potential purchasers early in May.

The aim will be to negotiate a commercial rent and, in turn, a soundly based premium for the disposal of each service area, having regard to the special nature of MSAs and the conditions under which they are required to operate. While the presumption is in favour of disposal to the existing operators, they are not being put in a more favourable position than any other potential purchaser.

I am not yet in a position to be precise about the timing of the exercise and the capital realisation. But already three of the operators, covering half of the present 38 service areas, have expressed interest and I am hopeful that I can make a substantial contribution to our disposals target in 80/81.

I am copying this letter to the other members of E(DL) and to Sir Robert Armstrong.

NORMAN FOWLER



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

12 February 1980

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
London SW1

John G. ...

DISPOSALS IN 1980/81

In your letter of 28 January to E(DL) Members, you asked for proposals for additional disposals in 1980/81 above those listed as firm in the annex to Nigel Lawson's paper (E(DL) (79)18).

The discussion on that paper indicated two candidates from my own Department's responsibilities - NEB disposals and privatisation of Cable and Wireless. On the former, I can confirm that I expect receipts from disposals in 1980/81 to be about £70 million. This - which will of course depend on the level of the stock market generally - will be in addition to £38 million reduction in PSBR this financial year associated with NEB disposals. For Cable and Wireless (C&W) our present intention is to introduce private sector capital into the main company and to bring forward the necessary legislation in the next session of Parliament. (This will be subject to, first, successfully negotiating extension of C&W's most profitable concessions in Hong Kong and Bahrain beyond 1987 and 1982 respectively and, secondly, consultations with the other overseas government involved). This course, at the initial level of sale of shares recommended to us by merchant banks on market grounds, is expected to raise up to £100m. But it is most unlikely that the sale will be possible before summer 1981 at the earliest and the proceeds will therefore not be available to benefit the PSBR during 1980/81; and action on this may be conditioned by the progress of the negotiations referred to in the following paragraph.

As you are aware, there is also the possibility of raising an additional amount by selling shares in a C&W subsidiary which might be set up in Hong Kong. Since no legislation would be required proceeds from such a sale might be available during 1980/81. But this issue is politically highly sensitive for two reasons. First, the present C&W Court is unanimously opposed to the idea of offering local participation in a Hong Kong subsidiary because it believes that there would be

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REC.	18 FEB 1980
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undesirable repercussions on C&W business elsewhere. Secondly, the Hong Kong Government which is about to open negotiations with C&W on its concession and royalty agreement, has indicated an interest in the idea of a Hong Kong subsidiary with possibly participation by the Government of Hong Kong. For these reasons I suggest that no figure for this possible additional sale should be written into this financial year.

The only additional candidate for disposal in 1980/81 which I can bring forward is disposal of loans made principally under sections 7 and 8 of the Industry Act 1973, which I am arranging to be sold, and which should bring £40 million receipts in the next financial year.

I am copying this to other members of E(DL) and to Sir Robert Armstrong.

*Y
Carr*

Kerr



CH	EXCHEQUER
REC.	- 8 FEB 1980
ACTION	Mrs. CASE <i>Sat 8/2/80</i>
COMES TO	PS (CST)
	PS (FST)
	PS (MST (C))
	PS (MST (L))

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

7 February 1980

W

See copy

SIR D. WASS
SIR A. RAWLINSON
MR. RYRIE
MR. F. JONES
MR. F. E. R. BUTLER
MR. MONCK
MR. UNWIN
MR. C. D. BUTLER

MR. NORTON
MR. WICKS
MR. SWALLOOD
MR. RIDLEY
MR. CARDONA

DISPOSAL OF ASSETS 1980/81

At the meeting of E(DL) on 19 December, Ministers were invited to bring forward proposals for additional disposals in 1980/81 (E(DL)(79)8th meeting).

As regards new towns, I wrote to Nigel Lawson on 14 January explaining why I could not go beyond a contribution of £125m to the programme - one quarter of the total you are seeking. Nigel replied on 28 January urging me to offer a larger contribution, and suggesting that I was proposing to use part of the disposal proceeds to increase existing provision elsewhere within DOE programmes. That will not be so. For 1980/81 I am using a figure of £77.8m for gross new towns commercial and industrial investment. Given that £23.3m is already provided in PESC on a net basis, it follows that the first £54.5m of disposal proceeds must be regarded as a claim against the new investment programme. Given that I have already offered £125m towards the disposals programme, it means that we shall have to make total new towns disposals of £179.5m to achieve our overall target. These figures are at 1979 Survey Prices. We still have to agree a revaluation factor with you but this will no doubt take my offer to a figure in excess of £200m in 1980 prices. Given the current state of the property market it would seem imprudent and unrealistic to assume total sales of more than that amount. Hence I do not feel about to go beyond £125m as my contribution to the disposals programme - a figure which appeared to be accepted in the E(DL) discussion on 19 December.

I have also now looked at the rest of my programmes, but I have to conclude that there are no further contributions that I can offer.

Regional Water Authorities were shown in E(DL)(78)18 as contributing £5m in 1979/80, but nothing in 1980/81. They are planning to sell some £1.5m of fixed assets, including land, next year, but this figure has already been taken into account in their cash limit.

The PSA contribution of £4m was to come from the sale of the site at St Mellon's, Cardiff, which was in the process of being acquired for part of the Ministry of Defence dispersal programme when the scheme was abandoned as a result of the dispersal review. This amount is by no means certain, because there may be difficulties in assembling the whole of the site. On the other hand there are prospects of increasing receipts from the normal run of property sales next year as a result of our emphasis on the disposal of surplus property.

I am sending copies of this letter to the other members of E(DL) and to Sir Robert Armstrong.

for [unclear]
[Signature]

MICHAEL HESELTINE



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QP

Tel: 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dea Seamus

DISPOSALS IN 1980/81

Thank you for copying to me your letter of 28 January to Keith Joseph.

As you know, the Department together with the Atomic Energy Authority have been giving further consideration to proposals for the disposal of the Radio Chemical Centre. I hope to be able to bring forward a paper for consideration by colleagues, as agreed at E(DL) on 19 December, later this month.

As E(DL) recognised, the possible sale of BGC's oil interests and of the NCB subsidiaries raise wider issues. In the case of the NCB subsidiaries we agreed that sales might be thought of as a long term aim. As far as BGC interests are concerned, I do not want to put forward any specific suggestions in advance of consideration of the inter-related range of issues now being studied by the group chaired by Norman Lamont. I am expecting Norman's report in the coming weeks.

Copies of this letter go to Keith Joseph, other members of E(DL) and Sir Robert Armstrong.

D A R HOWELL

Keith Joseph
David

CHANCELLOR	
REF	-4 FEB 1980
1	MRS CASE <i>211 412/50</i>
COPY TO	PS/IST
	PS/IST
	SIR D. WASS
	SIR A. RAWLINSON
	MR RYLAND
	MR F. JONES
	MR F. E. A. BUTLER
	MR MONCK

4 February 1980
MR UNWIN
MR C. D. BUTLER
MR NORTON
MR WICKS
MR SMALLWOOD
MR RIDLEY
MR CARDONA

Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Kyrie
Mr. F. Jones
Mr. P.E.R. Butler



Mr. Horder
Mr. Unwin
Mr. C.D. Butler
Mr. Norton
Mr. Wicks
Mr. Smallwood
Mr. Case
Mr. Ridley
Mr. Cardona

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

28th January, 1980

John

DISPOSALS IN 1980/81

At the meeting of E(DL) before Christmas, we recognised the need to make urgent progress in identifying proposals for disposals needed to make good the gap between reasonably firm plans made so far and the published target of £500 million. The responsible Ministers were asked to bring forward proposals during January.

I am concerned that no proposals have yet come forward. The need to prepare plans is very pressing and I am therefore writing to ask you, and others, to put forward your proposals in the very near future. Papers on Motorway Service Areas and the Radio Chemical Centre were promised by Norman Fowler and David Howell early in the new year. We ought also to consider urgently the scope for disposals by BGC, in particular the Wyth Farm field. If the problem here is the need for legislation, should we not take the opportunity to include powers in the forthcoming Petroleum and Submarine Pipelines (Amendment) Bill. It would be helpful if David Howell would also look again at the scope for disposal of NCB subsidiaries, where legislation is not required.

I am copying this letter to the other members of E(DL) and to Sir Robert Armstrong.

John

(GECFFREY HOWE)



-4 MAR 1960

CONFIDENTIAL*From the Secretary of State*

The Rt Hon Norman Fowler MP
Minister of Transport
Department of Transport
2 Marsham Street
London, SW1P 3EB

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mw

27 February 1980

Dear Norman .

BRITISH TRANSPORT DOCKS BOARD: INTRODUCTION OF PRIVATE CAPITAL
(E(DL)(80)1)

I have seen the Chancellor's letter of 21 February and I too am in full agreement with your proposal to introduce private capital into the ports business presently operated by the British Transport Docks Board. It would, of course, be better not to privatise the 19 ports as a single unit, but I am prepared to agree with your judgement that this is the only realistic way of making a start down the required road towards more competition and efficiency.

From the shipping industry point of view we want the maximum commercial flexibility and diversity in the choice of independent ports, especially given the highly competitive nature of this international industry. Obviously, the efficiency of our ports is of very great importance not just for the shipping industry but for our trade in general. In so far, therefore, as you have any room for manoeuvre I hope you will keep open other possibilities, such as dividing the Board's present operation into three or more separate units, each with a smaller market share. In other words if you can avoid a binding commitment against a second stage break-up into several independently quoted units I think it would be desirable. In general, however, I am delighted that we should be taking this first step.

CONFIDENTIAL



From the Secretary of State

CONFIDENTIAL

Copies of this go to the Prime Minister, the other members of E(DL), the Secretary of State for Employment, and Sir Robert Armstrong.

*Ens eva
Edm.*

JOHN NOTT

CONFIDENTIAL

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27 FEB 1980



Prime Minister Econ Pol.
To glance.
R
24/2

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

21 February, 1980

Dear Norman

[Handwritten mark]

BRITISH TRANSPORT DOCKS BOARD -
INTRODUCTION OF PRIVATE CAPITAL

In your paper E(DL)(80)1, you proposed the introduction of private capital into the British Transport Docks Board, and sought authority for more detailed discussions with the Board as a prelude to a public announcement and, if possible, legislation in the 1980/81 Parliamentary Session. You pointed out that the trade union reaction would be very important, and suggested that there should not be any public announcement until the Board themselves had had initial consultations with the trade unions.

Your paper was to have been discussed at a meeting of E(DL) on 18th February, but that meeting was cancelled and there are no immediate plans for another one.

I am broadly content with your proposals, and subject to any views which the other recipients of this letter may express by Friday, 29th February, I am writing to convey E(DL)'s approval of them.

I note that you are planning to give E(DL) a further report by the late spring. I should be grateful if you would also let us see a draft of your Parliamentary statement before it is made.

Copies of this go to the Prime Minister, the other members of E(DL), the Secretary of State for Employment, and Sir Robert Armstrong.

[Handwritten signature]
GEOFFREY HOWE *[Handwritten signature]*

The Rt. Hon. Norman Fowler, M.P.

21 FEB 1960



cc A. D. J. D.



Rcon P31

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 20/17/6

13th February 1980

Dear Geoffrey,

R1312

GOVERNMENT INDUSTRIAL ESTABLISHMENTS

I have read Keith Joseph's letter of 11th February with interest.

So far as the MOD is concerned - and it is by far the biggest employer of industrial civil servants - studies are in hand into most of the areas that Keith enumerates. You will recall that as part of the continuing action of examining ways of reducing the numbers of civil servants, I set in hand studies, led by Ministers, into the Dockyards and the R & D Establishments. These studies are due to be submitted to me by 1st April. As for the ROFs, they are already subject to the discipline of a Trading Fund and their numbers are accordingly specifically segregated in any overall presentation of the size of the Civil Service. These are the major self-contained areas in MOD: other tasks, where large numbers of industrial civil servants are employed, are more closely integrated into our military structure.

I therefore believe that the work Keith Joseph proposes is already in hand in MOD. I would not, in any case, see the value of a general review: the tasks and requirements of Departments vary greatly and I suggest it would be quicker and more effective for areas to be studied on a case by case basis.

I am sending copies of this letter to other members of E Committee and Sir Robert Armstrong.

James L...
John...

Francis Pym

The Rt Hon Sir Geoffrey Howe QC MP

13 1890



cc A Duguid

CONFIDENTIAL



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

11 February 1980

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall SW1

John Gubbay

R. ...

GOVERNMENT INDUSTRIAL ESTABLISHMENTS

We have had a number of discussions about the determination of public service sector pay and I see from your paper E(80)8 that we are due to discuss it again on Wednesday. Some limited progress has been made in injecting those vital elements - supply and demand, geographical differences, efficiency, job security and pensions - into pay determination in the service sector so that it is subjected to at least some of the disciplines of the market and I hope that we can do more. But, without wishing to prejudice the discussion about decentralisation, I suspect that progress may be difficult or unacceptably slow in some areas and I suggest we should turn our minds to what the radical alternatives are.

I am not responsible for any industrial establishments but the Department of Industry is responsible for a number of research establishments (REs). I am making arrangements for the REs either to be transferred to the private sector, as is happening with the National Maritime Institute, or to become more responsive to commercial pressures by requiring them to fund an increasing portion of their work under contract from the private sector. These arrangements are introducing a greater degree of commercial discipline whilst simultaneously reducing the size of the Civil Service. Public expenditure savings also result.

Should we not examine urgently the extent to which similar arrangements could, and should, be applied to the various Government industrial establishments? Many may be carrying out manufacturing operations which are largely indistinguishable from those carried on in the private sector. For example, the Royal Mint seems to be fundamentally no different to companies like the Birmingham Mint and we may need to consider whether coin manufacture needs to be under Civil Service control at all. Many overseas governments appear to be entirely content to procure their coins from companies which are not even located in their national territories, let alone under their direct control. Similarly, many of the more routine activities of the Royal Ordnance factories,

/such ...



such as shell production or tank construction, could be carried on in the private sector. (I would not, of course, argue that it would be appropriate to attempt to privatise such sensitive establishments as ROF Burghfield). HMSO and the Royal Dockyards also seem to me to be areas where we might reconsider whether those carrying out industrial activities need to be covered by Civil Service terms and conditions of service.

There are a number of potential advantages of moving further in the direction of privatisation. In the first place, by transferring to the private sector some of the Government's industrial activities we should reduce the number of civil servants. Secondly, it should be easier to control the numbers and efficiency of those involved in the activities that it was essential to retain. Thirdly, subjecting management and workers to the discipline of the private sector where jobs are at risk should help achieve some measure of restraint in pay settlements and limit the scope for pay determination by comparability, with its imperfections.

Against this general background I wonder whether there might not be scope for a general review of the Government's industrial activities. While considering the question the thought occurred to me that there might be scope for selling the Bank of England's banknote printing operations to the private sector and, in particular, its 30% shareholding in Portals. I understand that many overseas governments buy their banknotes from De La Rue and there seems no reason why the Bank should own its own printing operations. It would be interesting to know whether the notes issued by the Scottish clearing banks are printed by private sector companies. This, however, is a question outside the scope of the review I have in mind.

I am sending copies of this letter to other members of E Committee and Sir Robert Armstrong.

Kevin
Kevin



THE FIELD HOUSE

BRITISH TRANSPORT DOCKS BOARD
FINANCIAL RECORD

	£m (outturn prices)						
	1973	1974	1975	1976	1977	1978	1979
Surplus after replacement cost depreciation but before interest and tax	10.1	8.5	8.4	19.1	22.0	21.1	20
Capital Investment	(8.8)	(8.7)	(11.1)	(6.9)	(10.2)	(9.2)	(17)
Interest paid to the Government	(6.8)	(7.0)	(6.7)	(6.8)	(6.8)	(6.5)	(6)
Repayments of capital debt to the Government	-	-	-	(5.5)	(5.5)	(5.4)	(11)
Total payments to the Government	(6.8)	(7.0)	(6.7)	(12.3)	(12.3)	(11.9)	(17)
Corporation Tax paid	-	-	-	-	-	(2.4)	(8)
Outstanding capital debt (face value) at year end	124.7	124.5	124.5	118.0	111.6	105.2	93
Reserves at year end	11.7	15.4	20.6	32.9	47.4	62.5	77

- NOTES: 1. The figures for 1973-78 derive from the Board's annual accounts. The figures for 1979 are a projection by the Department of Transport based on the Board's results for the first 43 weeks of 1979.
2. The Board are likely to have to continue to pay substantial sums by way of Corporation Tax.

PART 2 ends:-

E (DL) (79) 8 Meeting of 19.12.79.

PART 3 begins:-

s/s Industry to ch of Ex. of 11.2.80.